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Senate Hearings

Before the Committee on Appropriations

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Treasury, Postal Service, and Gener...

Treasury, Postal Service, and General Government Appropriations

Fiscal Year 1997

104*th* CONGRESS, SECOND SESSION

H.R. 3756

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U.S. OFFICE OF SPECIAL COUNSEL

S. Hrg. 104–747

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

ON

H.R. 3756

AN ACT MAKING APPROPRIATIONS FOR THE TREASURY DEPARTMENT, THE UNITED STATES POSTAL SERVICE, THE EXECUTIVE OFFICE OF THE PRESIDENT, AND CERTAIN INDEPENDENT AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1997, AND FOR OTHER PURPOSES

Department of the Treasury
Executive Office of the President
Federal Labor Relations Authority
Nondepartmental witnesses
Office of Government Ethics
Office of Personnel Management
U.S. Office of Special Counsel

Printed for the use of the Committee on Appropriations

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

WEDNESDAY, APRIL 17, 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:20 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby and Kerrey.

DEPARTMENT OF THE TREASURY

STATEMENT OF JAMES E. JOHNSON, ASSISTANT SECRETARY OF THE TREASURY, ENFORCEMENT

OPENING REMARKS

Senator SHELBY. The subcommittee will come to order.

I am sorry we are not starting on time, but we have had votes on the floor of the Senate. I think everybody here knows we try to make those votes.

We welcome all of you today. Today, the subcommittee will begin its formal hearings on the President's fiscal year 1997 budget request. For those of you who attended last year's first hearing, this statement will sound similar to the one you heard last year.

I do not have to tell people money is tight. You all know that. I have no idea of what the specifics of the budget resolution will be at this time, but it is not going to be difficult to figure it out. We are moving toward a balanced budget, I hope. This subcommittee is doing its part. We have shown we can make the tough choices. Last year was not an aberration. I believe it is a trend. We are reducing Government spending, reducing the size of Government, and doing the things necessary for Government to be more efficient and more effective.

I want to publicly thank all the members of the subcommittee who worked so hard last year on the Treasury bill, especially the ranking member, Senator Kerrey, who has joined me. This year will not be any easier, but I know we will be able to work together and resolve the issues facing us.

Senator Kerrey, do you have any opening remarks?

Senator KERREY. Mr. Chairman, I do not have a lengthy opening statement. I regret to say that I have a conflict with the Intel-

ligence Committee which is meeting to markup the Intelligence budget.

Senator SHELBY. I have that same one.

Senator KERREY. I unfortunately have to chair that one. I would like to submit, if you do not mind, some questions for the record.

Senator SHELBY. I would be glad to do that on your behalf for the record, and your statement will be made a part of the record.

Senator KERREY. I would just say, in brief for the record, that I think overall the budget recommendations appear to me to be pretty sound. All these agencies that are represented here this afternoon are vitally important providing safety and security for the American people, and in particular it seems to me this day and age of all the things we are being asked to do from citizens with their money, this is high on the list.

So I appreciate what I consider to be a good budget recommendation, and I applaud you and your agencies and your personnel for the work that you are doing.

Senator SHELBY. I have given my proxy to Senator Specter, who is the chairman, and you are the vice chairman of the Intelligence Committee. Make sure he is voting appropriately. [Laughter.]

INTRODUCTION OF WITNESSES

Our hearing today focuses on the Department of the Treasury and its law enforcement functions. James Johnson is Assistant Secretary for Enforcement. He is joined by John Magaw, the Director of the Bureau of Alcohol and Firearms; Charles Rinkevich, Director of the Federal Law Enforcement Training Center; Stanley Morris, Director of the Financial Crimes Enforcement Network; George Weise, Commissioner, U.S. Customs Service; and Eljay Bowron, Director of the U.S. Secret Service.

Time is of the essence. Some of you have other meetings and other places to go to testify, so I have asked each of our witnesses to keep their opening statements as short as they can. Your entire written statement will be made a part of the record, and, as is the committee's practice, we will try to move along.

I have another announcement here. As an aside, I understand we have a group from the Chamber of Commerce of Brunswick, Glynn County, GA, with us today, home of the Federal Law Enforcement Training Center. Where are you? Right back there. We are glad to welcome you to this hearing. You have been talked about mostly in a very affirmative way before in this hearing and the job you do there and how important the Federal Law Enforcement Training Center is to the people that are participating in this hearing today, and I welcome you and I thank you for your community's backing of what you do and the presence that you have there.

Today is Secretary Johnson's first appearance before the subcommittee, and, Secretary Johnson, I want to personally welcome you. Mr. Secretary, we will start with you and go to each of the other witnesses for any opening remarks that you would care to make. Welcome to the committee.

STATEMENT OF JAMES JOHNSON

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate the warm welcome and the opportunity to testify on behalf of the Depart-

ment's fiscal year 1997 request for Treasury enforcement. I look forward to continuing and building on what I understand to be a strong relationship between Treasury enforcement and the members and staff of this committee.

With me today are the leaders of most of Treasury's law enforcement bureaus: George Weise, the Commissioner of Customs, Eljay Bowron, the Director of the Secret Service; John Magaw, the Director of the Bureau of Alcohol, Tobacco and Firearms; Stanley Morris, the Director of the Financial Crimes Enforcement Network; and Charles Rinkevich, the Director of the Federal Law Enforcement Training Center. These representatives will provide greater detail and insight into the law enforcement initiatives of their respective bureaus and offices, and how these initiatives relate to our budget requests.

In my short time on the job—it has just been 4 weeks—I have learned a great deal already about the important work performed by Treasury enforcement. These bureaus' missions are vital to the protection of our Nation, as Senator Kerrey just pointed out. I have acquired already a deeper appreciation of the professionalism and skill that they bring to the fulfillment of their missions, and I just refer to a couple of examples.

Due to their law enforcement expertise, two Treasury bureaus, the IRS Criminal Investigation Division and the ATF are assisting onsite with a search warrant that began April 3, 1996, at the premises of Ted Kaczynski, near Lincoln, MT.

The Department of the Treasury is involved with the terrorism bill currently pending in Congress. Several sections of the bill would directly affect our operations. For example, Treasury, in the current version of the bill, would be responsible for studying the use of tracer elements and certain explosive material. These elements, referred to as taggants, will enable law enforcement officers to develop leads when conducting investigations of explosive incidents.

I would like to say a little bit about some of my goals, as I begin my job here. I am making it a high priority to ensure that our enforcement bureaus maintain complementary and supplementary jurisdictions. Therefore, I plan to identify, as I grow in my post, areas where there is duplication, areas where we could have greater efficiency. It will be my goal to set tough performance measurements across the board.

Professionalism, training, and integrity, are also high-priority issues. As you know, the Department of the Treasury's report of the good old boys roundup policy review contains 15 recommendations for changes in law enforcement personnel policy. It is my responsibility to oversee the implementation of these recommendations, a responsibility I share with the men that are sitting at the table before you.

The policy review recommendations reach the issues of racism and bias in hiring, training, evaluation, and discipline. Simply put, the new rules will make it clear that we will not tolerate racist or biased conduct from Treasury's law enforcement officers, whether on duty or off duty. Treasury's enforcement bureaus collect revenues, provide valuable regulatory services, and enforce criminal laws; in the multiple functions of collection, regulation, and en-

forcement have created both a unique expertise within our bureaus on each issue for which they are responsible; as well as important synergies in the bureaus and across the entire Department.

Our bureaus have had tremendous success in meeting many law enforcement challenges. Nevertheless, they continue to explore ways to improve their service to the public. The enforcement efforts have been greatly enhanced by the leadership and support for law enforcement provided by Secretary Robert Rubin. Under the Secretary's leadership, Treasury's Office of Enforcement provides policy oversight, coordination, guidance, and support to and between the bureaus. I have already started meeting regularly with the bureau and office heads, and make myself available, sometimes around the clock, to ensure that this role is carried out.

BUDGET REQUEST

I will turn briefly, before I surrender my time, to our fiscal year 1997 request. While the bureau representatives will speak in much greater detail on our budget request, I would like to touch on several important budget themes and highlights. The submitted budget seeks resources to help Treasury combat violence, money laundering, and other financial crimes, fraud, and narcotics smuggling. A $2.76 billion request for Treasury law enforcement bureaus includes a little more than $97 million available under the violent crime reduction trust fund, which Congress established in 1994. These resources will continue investments begun in 1995 and in fiscal year 1996, and will achieve selected program enhancement.

PREPARED STATEMENT

Mr. Chairman, I would like to close by thanking you once again for having us here today and for your continue support of Treasury enforcement. I would be happy to answer any questions that you might have.

[The statement follows:]

PREPARED STATEMENT OF JAMES E. JOHNSON

Chairman Shelby, Senator Kerrey, Members of the Committee, I appreciate the opportunity to accompany Enforcement's Bureau Heads as we testify on the Department's fiscal year 1997 request for Treasury enforcement. Also, I look forward to a continued productive relationship with the Subcommittee Members and staff.

With me today is George Weise, Commissioner of Customs, John Magaw, Director of ATF, Eljay Bowron, Director of the Secret Service, Charlie Rinkevich, Director of the Federal Law Enforcement Training Center, and Stanley Morris, Director of the Financial Crimes Enforcement Network.

Let me touch on a few themes and highlights, and then Commissioner Weise and Directors Magaw, Bowron, and Rinkevich, will discuss our request in greater detail. The fiscal year 1997 Budget seeks resources to enhance Treasury's authorities for combating crimes of violence, fraud, and drug abuse. The $2,760 million request for Treasury law enforcement bureaus includes the full $97.2 million available under the Violent Crime Reduction Trust Fund which was established in 1994. These resources will continue investments begun in fiscal year 1995 and fiscal year 1996, and will achieve some program enhancements. The following are some initiatives for which we are seeking your support:

U.S. CUSTOMS SERVICE

—$65 million and 657 FTE's to enhance enforcement operations on the Southwest Border by hiring agents, inspectors and para-professionals, concomitant job equipment, and non-intrusive inspection technology and infrastructure.

—$29 million and xxx FTE for ATF for firearms trafficking, a new lab, training, enforcement personnel, equipment and personnel for ATF's firearms tracing center, and integrated ballistics machines imaging systems.
—$29 million and 279 FTE for the Secret Service to enhance White House Security and to continue combating overseas counterfeiting, replacement vehicles, and equipment to support crime fighting efforts.

Besides enforcing criminal laws, Treasury enforcement bureaus collect revenues, and regulate the private sector. These multiple functions of collection, regulation and enforcement create important synergies within each Treasury Bureau, and across the entire department. This cooperation and coordination flow throughout federal law enforcement and international affairs communities, and to state and local jurisdictions. Also, I cannot overemphasize the benefits when IRS, Customs Service, Secret Service, bank regulators, and the tax policy people who negotiate tax treaties, work together to attack money laundering. Treasury enforcement also has FinCEN to support and provide information to state and federal authorities, and law enforcement entities abroad, to counter money laundering. Internationally, in broad terms, money laundering is the biggest threat to the integrity of the U.S. economy.

Before shifting to Treasury's enforcement strategies and examples of how each bureau's operations are consistent with these strategies, I want to mention that Secretary Rubin and Deputy Summers lead the Department's efforts, internally and externally, to assure that Treasury enforcement gets appropriate attention and support. (e.g., This month's issuances of the Good Old Boy Roundup reports). They also encourage us to reflect inward when necessary.

In order for us to maintain a strong Treasury law enforcement and to achieve our enforcement strategy and goals, we must integrate prevention, detection, and enforcement. Our strategic priorities include:

—Ensure the safety of the President and other protectees while maintaining a balance between security needs and appropriate public access.
—Promote the safety and security of Americans by reducing gun violence.
—Promote voluntary compliance with trade laws while maintaining emphasis on the investigation and deterrence of illegal importation of drugs and other smuggled merchandise. This includes compliance with economic sanctions.
—Support and maintain the integrity of our financial system by encouraging a three-pronged approach.
  —Combating and deterring money laundering by blending and refocusing Treasury's law enforcement and financial/regulatory oversight expertise on proceeds generated by drug traffickers, organized crime organizations, etc.
  —Deterring the counterfeiting of U.S. currency and suppressing the illegal use of access card privileges by strategically deploying personnel.
  —Enhance traditional tax law enforcement by utilizing IRS' new artificial intelligence system.
—Prepare Treasury enforcement work forces for the 21st century by promoting integrity, operational excellence, and diversity while ensuring respect for the importance of family, civic, and individual priorities. The FLETC would help by applying innovative and proven teaching methods and sophisticated technology.

The following bureau accomplishments are examples of how individual bureau missions and strategies support Treasury's strategies in the preceding section.

—Customs unique and extraordinary work is most apparent in narcotics interdiction, money laundering, and trade enforcement.
  —As smugglers have changed their methods, Customs, too, is using different tools and strategies (e.g., electronic systems to target high-risk cargo, conveyances). Customs continues to seize more drugs than all other law enforcement agencies combined in the Nation. In fiscal year 1995, Customs discovered and/or seized 66 percent of federal cocaine seizures, 87 percent of all federal heroin seizures, and 57 percent of all federal marijuana seizures.
  —In 1995, we introduced Operation Hard Line to strengthen and tighten the ports of entry through facility improvements and the use of technology. As a result, along the Southwest border, port-running incidents have reduced 42 percent and cocaine seizures are up 19 percent, heroin seizures are up 108 percent, and marijuana seizures are up 25 percent.
  —To respond to the threat in the Caribbean area, Customs is about to launch Operation Gateway to advance a complete and unified securing of Puerto Rico, the U.S. Virgin Islands, and their surrounding waters and airspace from narcotic smugglers. This area has emerged as a vital strategic location for the introduction and transshipment of narcotics into the U.S. and Europe. Currently, the price of narcotics in Puerto Rico and the Virgin Islands are at the lowest in the U.S., second only to South American prices, and local usage has

skyrocketed. In fiscal year 1995, known Puerto Rico transshipment cocaine seizures increased by 500 percent.

ALCOHOL, TOBACCO AND FIREARMS

—As its name infers, ATF serves as the regulator for the legal commercial activities carried out by the alcohol, tobacco and firearms industries and for the explosives' industry. ATF oversees the collection of $8 billion in alcohol taxes annually and protects $27 billion in bonded liabilities while conducting almost 4,000 alcohol compliance inspections. ATF has done some innovative things that firmly anchor it in the federal and local law enforcement communities.
—ATF continues its effective use of Ceasefire which uses advanced computer technology to increase the effectiveness of ballistics examination of both projectiles and cartridge casings. This technology which ATF launched will be of significant value to the national law enforcement community.
—Exhibiting technological leadership, ATF has maintained a file service on the Internet for two years. Last month when ATF made data available on the World Wide Web, the response was tremendous. Internet users made more than 8,000 accesses in the last two weeks of December 1995.
—ATF maintains four regional National Response Teams (NRT) to help federal, state, and local investigators overcome the difficult inherent in large-scale arson or explosives crime scene investigations. Each NRT consists of special agents, explosives and arson technicians, and forensic scientists. Since 1979, ATF has activated NRT's 318 times to incidents that caused 432 deaths, 2,342 injuries, and $4.3 billion in property damage.
—Using the National Law Enforcement Telecommunications System, ATF field offices are beginning to submit trace requests electronically. In addition, the National Tracing Center (NTC) has added system upgrades which provide more information about firearms transactions, recovery, multiple sales, and stolen weapons and it has developed the ground breaking Project Lead software program.

SECRET SERVICE

—In an increasingly hostile society, Secret Service accomplishes its protective and investigative missions effectively. The Secret Service investigates and prevents counterfeiting of U.S. Currency, stamps, bonds, and checks. It also investigates and deters financial institution fraud, and access device fraud.
—The Secret Service has integrated the White House Security Review recommendations into its policies to ensure the security of the President and the White House complex, including the closure of Pennsylvania Avenue in front of the White House.
—During the five year period fiscal year 1990 through fiscal year 1994, the Secret Service seized more than $266 million of the $310 million (85 percent) produced domestically before it was circulated. (More than 65 percent of the U.S. currency is in circulation abroad.) During that same period, Secret Service arrested more than 9,000 individuals on counterfeiting charges, with a 96 percent conviction rate.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Besides meeting the training requirements for all Treasury bureaus, FLETC provides basic law enforcement training for personnel from 65 other participating federal agencies. On a space available basis, FLETC also conducts training for state, local, and international students.
—During fiscal year 1995, FLETC provided 77,659 student weeks of training to 21,810 students. In fiscal year 1996, FLETC estimates that they will provide 116,699 student weeks of training to 25,408 students. Most of the increases in training workloads are due to the INS "build up" to ensure better border control.
—FLETC's current facilities do not have the capacity to accommodate the training projections; therefore they are establishing a temporary facility in Charleston, SC. It will be used to conduct the INS training that cannot be held at Glynco and Artesia.

FINCEN

FinCEN administers and enforces the Bank Secrecy Act and it also supports federal and local law enforcement as a financial intelligence center for data collection and analysis. FinCEN's goal is to improve the ability to analyze financial intel-

ligence derived primarily from commercial, financial and law enforcement databases, thus allowing for expanded distribution of money laundering trends to federal, state and local law enforcement agencies, regulators, and the financial sector by using advanced technologies.

I would like to close by thanking the Chairman and the Ranking Member of this Committee for your support and defense of Treasury enforcement.

With your concurrence, Mr. Chairman, I will ask Commissioner Weise to present his brief oral statement.

U.S. Customs Service

STATEMENT OF GEORGE J. WEISE, COMMISSIONER

ACCOMPANIED BY MICHAEL LANE, DEPUTY COMMISSIONER

Senator SHELBY. Commissioner Weise.

Mr. WEISE. Thank you, Mr. Chairman. It is a pleasure to be here today to talk about Customs' current priorities and a few of the important initiatives which the Customs Service is presently undertaking. But before I do that, I would like to thank this committee for its continuous support of the Customs Service during a year in which the agency has gone through many changes and many challenges.

As you know, Customs has a wide range of responsibilities because of its diverse missions. What I want to make very clear today, however, is that narcotics interdiction is our No. 1 priority. We feel it is Customs' responsibility to give priority to the leading threat to the health, safety, and welfare of this Nation, and narcotics is that threat today. Our job at Customs is to do everything we can to stop narcotics from crossing our borders.

From time to time we hear assertions that Customs gives priority to facilitation over narcotics interdiction. This is simply not true. We see facilitation as a natural outgrowth of effective enforcement. To the degree that enforcement systems work, we can select the potential violator for intensive processing, while expediting those who willingly comply with the law. This concept is especially important in light of the increasing workload that Customs faces now and in the future.

The agency has been working hard to implement a number of innovative strategies, from reorganization to increased automation, to address the challenge of relatively static resources in an era where our workload seems to more than double every 20 years. At Customs, our greatest challenge continues to be developing solid systems and approaches which effectively respond to the narcotics smugglers' continuously changing methods.

OPERATION HARDLINE SUCCESS

One of the most recent initiatives, Operation Hardline, which addresses the problems of border violence and drug smuggling across the Southwest border, has met with great success in its first year. Seizures are up significantly in every category, and port running, the violent act of cars running at great speeds through the port of entry, has been reduced by over 40 percent. We believe the $65 million for the Hardline initiative in our fiscal year 1997 budget request is critically important if we are to continue to thwart the efforts of narcotics smugglers. This funding will allow Customs to acquire truck x-ray systems and other technology we need for our ports of entry, and will provide more inspectors, agents, canine en-

forcement officers where they will have the greatest impact on the Southwest border.

While the Southwest border remains the current focal point in Customs interdiction effort, we realize also that there is an urgent need to introduce a far more comprehensive interdiction system along our border, one that stretches from San Diego to San Juan. It now appears that the traffickers are expanding their delivery paths, and are once again resorting to the routes they preferred in the 1980's, the Caribbean and south Florida. We are prepared to address this, as well.

ANNOUNCEMENT OF OPERATION GATEWAY

At a press conference just yesterday, along with the Governor of the Commonwealth of Puerto Rico, I announced plans for Operation Gateway. Operation Gateway is a multidisciplinary, multiagency approach to the problem of narcotics smuggling and money laundering in the Caribbean. The initiative will encompass all areas of interdiction, including expanding marine and air enforcement, heightened cargo examinations, outbound initiatives, and expanded small vessel searches.

Customs will also use enhanced technology and additional inspectional and investigative support in order to achieve a more effective and comprehensive interdiction strategy. This new initiative, coupled with Operation Hardline, will permanently strengthen Customs narcotics interdiction efforts along the entire Southern tier of the United States.

PREPARED STATEMENT

In conclusion, Mr. Chairman, I know that with the support of this committee Customs will continue to meet the challenges it faces in the future and successfully fulfill its complex and vital mission. I look forward to a very productive future working with you, and appreciate the opportunity to appear before this committee today.

[The statement follows:]

PREPARED STATEMENT OF GEORGE J. WEISE

Good afternoon, Mr. Chairman and Members of the Committee. It is my pleasure to appear before you today to present the budget request and accomplishments of an agency which has a unique role in federal law enforcement—the United States Customs Service. But first I would like to begin by expressing my appreciation for the Committee's continuous support of the Customs Service during a year in which the agency has gone through many changes and challenges.

Customs is many things to many people because of its diverse missions. However, first and foremost, Customs number one priority is narcotics interdiction. Why do I explicitly make this statement? Because it is Customs responsibility to give priority to the leading threat to the health, safety and welfare of this nation. And narcotics is that threat today. It tears at every thread of society's fabric. It is a major cause for the increasing crime and violence in this nation, particularly in the inner cities. It is a major reason for the rapid growth in this nation's prison population. It contributes to this nation's escalated health care costs. And most importantly, it threatens a very precious resource—our children, in their schools and on our streets. It is for these many reasons that our job at Customs is to do everything we can to stop narcotics from crossing our borders.

Our greatest challenge has been to develop solid systems and approaches which effectively respond to the smuggler's continuously changing methodologies. Consequently, for the past several decades, Customs has been committed to developing very effective narcotics interdiction programs and systems including:

—an extensive air interdiction program to prohibit smuggling by small private aircraft;
—well-trained detector dogs to discover the presence of narcotics in containers, cargo, and passengers;
—agency intelligence programs to obtain information from all sources and disseminate information through one of the world's most effective computer systems, the Treasury Enforcement Communications System;
—the recruitment and training of the most competent law enforcement personnel in any Federal agency in my judgment—the Customs inspector, the Customs agent and the Customs canine enforcement officer;
—the implementation of the most effective and secure enforcement voice communication system of any law enforcement agency; and, most recently
—the Operation HARD LINE initiative to detect and prevent narcotics smuggling and port running on the Southwest border.

These are just a few of the examples which illustrate that narcotics interdiction is not only our number one priority today, but has been for several decades. From time to time, there are assertions that Customs gives priority to facilitation over narcotics interdiction. I would like to state in the strongest possible terms that facilitation is the outgrowth of effective enforcement. To the degree that enforcement systems work, we can select the potential violator for intensive inspection while expediting those who willingly comply with the law. This concept is of particular importance in light of the burgeoning workload that Customs faces now and in the future.

We have assessed our workload increases to put matters in perspective. From 1970 to 1990, revenue collections increased from $3.3 billion to $19.2 billion annually. Formal entries into the country increased from 2.8 million to 9 million and the number of passengers processed increased from 225 million to 422 million annually. In fiscal year 1995, 437 million passengers were processed; the number of formal entries rose to 13.1 million; and the amount of revenue collected rose to $23.3 billion. Customs continues to be the second largest revenue-producer in the federal government. And projections indicate that over the next 20 years Customs will see more dramatic increases in its workload.

As we reflected upon these incredible workload demands and our role as this nation's primary border enforcement agency, it became clear that we needed fresh, innovative approaches. And that is why in 1993 I established a reorganization study team which produced a report, "People, Processes, and Partnerships," and a new philosophy of managing by core processes, reducing administrative overhead, and placing resources where they count the most—in line, operational and enforcement positions.

At this point, I want to personally thank this Committee for the guidance, oversight, and assistance it has consistently provided to Customs during my term as Commissioner. Now I would like to discuss Customs fiscal year 1997 budget request and illustrate in further detail several examples of the unique and extraordinary work Customs performs for the nation.

FISCAL YEAR 1997 BUDGET REQUEST

Customs proposed appropriations for fiscal year 1997 total $1,590,222 and 17,846 FTE and clearly reflect our agency priority of narcotics interdiction. It includes a critically important Southwest Border initiative of $65,000,000 to provide 657 FTE for more cargo and passenger inspectors, canine enforcement officers, agents and the acquisition of four truck x-ray systems, portable Treasury Enforcement Communications System (TECS) terminals, and additional seizure vaults. This technology will enhance the physical security and inspection for narcotics at the ports of entry.

The additional inspectors will result in more examinations, especially of containers, improving targeting, and greater coverage and staffing for primary lanes, new cargo crossings, and rail crossings. The increased number of canine officers will provide greater coverage of both cargo and passenger operations, especially for the purpose of conducting pre-primary roving. Pre-primary roving enables Customs to be proactive in its search for narcotics at border crossings by using dogs to detect narcotics concealed in trunks or hidden compartments before the smuggler reaches the front of the line. And the additional agents will conduct an increased number of investigations that will occur as a result of the greater number of examinations performed by the inspectors.

Our budget request also includes $4,805,000 for fiscal year 1997 to begin the replacement of Customs aging vehicle fleet. Out of a total fleet of nearly 6,000 vehicles, Customs currently has 3,300 vehicles which exceed the GSA replacement criteria. Customs inability to replace these vehicles as they age will lead to costly, con-

tinuous maintenance and a more unreliable vehicle fleet that could impede Customs overall mission.

Due to a restrained fiscal climate in recent years, Customs had foregone investments in the replacement of basic law enforcement infrastructure tools, such as protective vests and investigative surveillance equipment which assist Customs personnel in carrying out their duties. For fiscal year 1997, Customs is requesting $2,400,000 for protective vests and surveillance equipment. Currently, Customs has approximately 2,000 vests which exceed the 5 year standard. Without this law enforcement equipment and with the increased risk of violence to law enforcement officials, Customs runs the risk of serious injury or death to one of its agents.

Our request also includes $2,000,000 for the relocations of 40 special agents in fiscal year 1997. These relocations serve several important purposes: to respond to the continuous shifting narcotics smuggling threat; to maintain the integrity of its agent work force and the public perception of that integrity; to train a versatile and effective work force; to protect agents and their families from physical harm and intimidation; and to maintain the morale of its agent work force.

In the Operations and Maintenance Appropriation for fiscal year 1997, Customs is requesting $2,957,000 in order to maintain Air Program flight hours at the 1996 levels in the arrival zone between the ports of entry. This will help ensure that Customs strengthening of the ports of entry does not result in a diversion of the smuggler to the areas between the ports.

Customs recently authorized four additional user fee airports. Additionally, there are several airports in the pipeline requesting small airport inspectional services. For these reasons, we are requesting an additional $1,000,000 to expand services at new locations.

Finally, our fiscal year 1997 budget proposal also includes $491,000 to reimburse the Office of Inspector General for Government Management Reform Act audits, and $2,500,000 for the establishment of a Technology Planning and Evaluation Unit which will prototype intelligent targeting systems for the Southwest land border ports.

NARCOTICS INTERDICTION

Customs principal responsibility is to prevent the smuggling of drugs into the United States by creating an effective interdiction and investigative capability that disrupts and dismantles smuggling organizations at the border. While the goal remains the same, the tools and strategies Customs employs have changed over time as smugglers have changed their methods. Customs current narcotics strategy includes the following objectives:

—To develop and enhance the collection, analysis, and dissemination of actionable intelligence through increased cooperation among all agencies involved in narcotics;

—To reduce the permeability of the U.S. border through enhanced surveillance and interdiction efforts;

—To focus interdiction efforts to deny the smuggler access to the air space between the source and transit countries and the border of the United States;

—To develop the electronic information systems to more effectively target high-risk cargo, conveyances, and persons at the ports of entry while expediting the flow of legitimate travel and trade;

—To develop and implement more efficient, less intrusive technology and techniques to identify smuggled narcotics;

—To conduct or participate in a variety of independent and multi-agency investigative programs;

—To increase the level of voluntary compliance through outreach programs to the trade community and general public; and

—To work with other nations to disrupt the worldwide smuggling of narcotics.

Not surprisingly, Customs continues to seize more drugs than all other Federal law enforcement agencies combined. In fiscal year 1995, Customs discovered and/or seized 66 percent of all Federal cocaine seizures, 87 percent of all Federal heroin seizures, and 57 percent of all Federal marijuana seizures.

Air and Marine Program

Customs Air Interdiction Program has clearly been one of the nation's most successful interdiction programs, not only achieving its objective of reducing general aviation smuggling into the United States, but consistently and effectively meeting the challenges of the ever changing drug smuggling threat to our nation. In the early 1980's, Customs expanded the Aviation Program to enhance its detection, pursuit, and apprehension capabilities along the border and within the United States, particularly in southern Florida. Downward-looking aerostat radar balloons were de-

ployed in the Caribbean to assist in the detection effort, and system modifications were made to support private aircraft enforcement that included an aircraft tracking system and new aircraft lookout procedures. With this increased sophistication, Customs Air Program was becoming extremely effective against air smuggling in this part of the country. And to no one's surprise, smugglers resorted to air dropping loads of cocaine to high speed boats and smaller vessels off the coast of South Florida.

In order to combat this new approach in smuggling methods, a comprehensive Marine Program was initiated. The Marine Program concentrates its operations primarily in the "Customs waters" (the arrival zone) in accordance with the National Maritime Interdiction Strategy and Plan and the National Drug Control Strategy. Marine modules were created utilizing a radar platform and two high-speed interceptor vessels, and a tightening of reporting requirements for all vessels was developed and instituted. Due to a reduced presence by the Coast Guard in arrival and transit zone waters, Customs Marine Program has become critically important in protecting the nation's borders by sea.

As Customs successes in the Air and Marine Programs grew in the late 1980's, smugglers became more desperate and began flying from Colombia, over Mexico, and across the Southwest border to land at locations within the southwestern United States. However, by this time Customs had already successfully expanded its Air Program to that area of the country and deployed a network of aerostats to provide wide radar coverage. In addition, P–3 Airborne Early Warning and long-range tracking aircraft were acquired and greatly enhanced our ability to intercept and apprehend suspect aircraft along the Southwest border. Without a doubt, Customs Air and Marine Programs play a distinctive role in the protection of the nation's borders from a continually shifting smuggling threat.

Operation HARD LINE

The Customs Service has seen a constant shift in the methods used by drug smugglers. As a result of the success of Customs Air and Marine Interdiction Programs, and the Immigration and Naturalization Service Border Patrol Program, smugglers have resorted to attempting to bring drugs into the U.S. through the ports of entry. Customs responded to this shift by developing a strategy called Operation HARD LINE.

Since its inception in 1995, Operation HARD LINE, Customs long-term initiative to address the problems of border violence and drug smuggling across the Southwest border, has met with remarkable results. Cocaine seizures are up 19 percent, heroin seizures are up 108 percent and marijuana seizures are up 25 percent along the Southwest border. Also, under Operation HARD LINE, port-running incidents have been reduced by 41.5 percent due to the strengthening and tightening of the ports of entry through facility improvements and the use of technology. Jersey barriers, fixed and pneumatic bollards, speed bumps, gates, stop-sticks, aviation, and canine resources are all being used to identify and control suspect vehicles.

The smuggling of narcotics in commercial conveyances and cargo poses a significant threat to Customs ability to permanently harden our anti-smuggling efforts because trafficking organizations can conceal far greater quantities of contraband in these shipments rather than in passenger vehicles. However, with the initiation of HARD LINE, our commercial cargo seizures have increased dramatically. In the first quarter of fiscal year 1996 alone, Customs has had 23 commercial cargo seizures along the Southwest border, compared to 26 cargo seizures in fiscal year 1995, and 12 cargo seizures in fiscal year 1994.

Two recent seizures illustrate Customs enhanced ability in dealing with smuggling by commercial conveyances on the Southwest border since Operation HARD LINE was implemented. In February, Customs inspectors in Nogales, Arizona, were performing a secondary inspection of a flat bed truck carrying an electric transformer. They became suspicious when they noticed freshly painted bolts on the transformer and a discrepancy in the address of the consignee listed on documents presented to Customs. After drilling into the unit, inspectors discovered and seized 297 packages of cocaine totaling 1,257 pounds. The estimated street value of the seizure was $56.5 million. This was the second major cocaine seizure at the Nogales facility in seven months. In July of 1995, Customs inspectors found 2,596 pounds of cocaine in the false wall of a truck trailer.

And two weeks ago, in Brownsville, Texas, Customs officers found 3,080 pounds of cocaine in the roof of a refrigerated tractor-trailer rig. This was the single largest seizure ever made in Brownsville and Customs officials estimate the load to be worth $138 million.

In fiscal year 1996, Customs began the implementation of a strategic plan to address all aspects of cargo processing along the Southwest border as part of HARD

LINE. This strategy calls for a series of short-term, intermediate, and long-term actions to address problems related to drug interdiction in the commercial cargo processing area. Customs began working in partnership with the many trucking companies who do business across the border. The Land Border Carrier Initiative Program, as it is called, enlists the support of land border carriers to police their own warehouses and conveyances to deter drug smugglers from using land border commercial conveyances and their cargo to transport contraband in the United States. Trucking firms will be required to give background information on themselves and their employees, to create, under the guidance of Customs, anti-smuggling safeguards at their warehouses and lots, and to open facilities to unannounced inspection by Customs officials. To date, 440 companies have agreed to work with Customs to improve their security procedures through the Land Border Carrier Initiative Program.

Customs has also begun operating a truck-size x-ray system located in the import lot at Otay Mesa, California. This is the first x-ray device of its kind at any port in the United States. It allows us to examine many tractors and trailers in just minutes. Two other x-ray systems will be installed at El Paso, Texas and Calexico, California in 1997. Because of Customs increased success in thwarting air smugglers, the drug lords are increasingly trying to move narcotics on the ground. A high-tech approach which incorporates x-ray systems with other tools such as fiber-optic scopes, density meters, and laser range finders, is of critical importance in processing commercial cargo if Customs success is to continue in dealing with smugglers along the Southwest border.

Customs plans to spend $55 million through fiscal year 1996 to tackle the continuing challenges on the Southwest border and respond to the drug cartels' changing smuggling methods.

Operation HARD LINE, Phase II

Despite the success of HARD LINE, vastly increasing workload demands continue to challenge us. Customs must be prepared to accommodate the increased workload associated with NAFTA, increased travel, and increased commercial shipments along the Southwest border. This workload has increased dramatically over the past 10 years and projections indicate that the workload will double in the next 10 years.

Customs is developing an additional strategy, which is a logical complement to Operation HARD LINE. This strategy will allow us to make a considerable difference along the Southwest border, by enabling us to perform all the tasks at border ports of entry needed to interdict narcotics in commercial cargo and conveyances, including targeting and conducting enforcement exams aimed primarily at the truck and driver and conducting more preprimary and block blitzes to make Customs more unpredictable to the border spotters.

FINANCIAL LAW ENFORCEMENT

Financial crime is a primary enforcement program of the Customs Service and has been since the 1980's. It focuses on the illegal flow of money and proceeds of major criminal enterprises. Individuals and organizations involved in these activities often use financial transactions to make their illegal activities appear legitimate.

Customs has established the critical goal of disrupting money laundering organizations for two reasons. First, Customs plays a major role in combating money laundering abroad and assisting other nations in developing financial enforcement programs. Second, Customs has found that targeting the financial activities of a criminal organization is the most effective way to disrupt it. Customs plan has the following objectives:

—To enhance the intelligence-supported targeting of money laundering;
—To expand the training of law enforcement organizations worldwide in the development of financial databases and criminal investigative and prosecutorial techniques;
—To implement a nationwide asset removal program in concert with both domestic and international law enforcement; and
—To ensure cooperative enforcement efforts against international criminal organizations engaged in money laundering.

A recent case illustrates Customs effectiveness in deterring money laundering schemes. Two months ago, inspectors at John F. Kennedy Airport in New York discovered $2.4 million in U.S. currency secreted inside wooden furniture. The money was destined for Cali, Colombia, via Miami. From the subsequent investigation, intelligence information was developed which helped identify the suspects involved. A few days later, the suspects dropped off a similar shipment at JFK Airport which contained $1.6 million in U.S. currency inside the freight. Three individuals were

arrested. This investigation is continuing, but to date over $4 million has been seized by Customs.

One important strategy employed by Customs to target money laundering schemes is the application of an aggressive undercover money laundering investigations program. In the past several years, undercover financial crime operations have resulted in the seizure of more than $653 million in cash and monetary instruments. These operations have also resulted in 1,750 arrests and the seizure of 28,000 pounds of cocaine. A recent impact analysis of Customs undercover money laundering operations has shown that Customs has one of the most cost-effective programs in the Federal Government in which we seize 35 dollars for every dollar we expend. The two largest single seizures of cash in the history of Federal law enforcement were made as a result of Customs undercover operations: CASACAM in Miami, where $22 million was seized, and OMEGA in Los Angeles, where $19 million was seized.

Moreover, it was Customs undercover operations that first exposed the vast criminal money laundering activities of both the Bank of Credit and Commerce International and American Express Bank International (AEBI).

In the AEBI case, Customs investigation revealed that two officers of AEBI laundered more than $30 million in drug proceeds for a drug organization based in Mexico by virtue of the positions they held with this bank and a previous bank in Switzerland. Customs seized an investment portfolio of AEBI, valued in excess of $30 million, in connection with international money laundering violations. The money was shown to be proceeds of the drug organization. As a result, several individuals were convicted, including two high ranking executives of AEBI. AEBI was also found corporately liable and forfeited $44 million to the U.S. Government.

TRADE ENFORCEMENT

In addition to producing billions in revenue each year, Customs trade enforcement activity investigates violations of U.S. laws and trade regulations enforced by Customs, including violations of currency, neutrality, smuggling, exports of arms and critical technology, cargo theft, and child pornography. Our goal is to focus on the violations that are most critical to the protection of U.S. health and safety, as well as the economic and industrial viability of the United States, in such areas as nuclear proliferation, infringement of intellectual property rights, and attempted importation of goods which do not meet U.S. health and safety standards.

Proliferation of Weapons of Mass Destruction

One of the most critical challenges Customs will face in the future, is the threat posed by the proliferation of nuclear materials, Weapons of Mass Destruction (WMD) and their associated technologies. The fall of the Berlin Wall in 1989 and the disappearance of Soviet Communism resulted in the emergence of a new threat. As a consequence of the collapse of the Soviet state, a vast "supermarket" of WMD and other stockpiled nuclear materials has become increasingly available.

In response to this ominous threat and as the geo-political climate changes, Customs is intensifying its existing strategies and developing new initiatives to include:

—State of the art nuclear detection devices required at all major ports of entry;
—Development of international databases and coordination mechanisms, to combat WMD smuggling and terrorism;
—Exploitation of intelligence to target WMD smugglers;
—Establishment of international undercover operations on major arms and weapons brokers and traffickers; and
—Training of other customs services abroad to prevent proliferation of weapons of mass destruction.

Current efforts are focused on illegal exports of nuclear, biological/chemical warfare, and weapons delivery technologies. Carefully designed undercover operations and the development of informants have led to many successful interdictions.

In the early 1990's, Customs conducted two successful undercover operations which prevented Stinger missiles from being unlawfully exported to unlicensed parties. Stinger missiles are highly accurate, shoulder-launched anti-aircraft missiles and are often sought by insurgents, terrorists, and arms traffickers around the world. In one of the investigations, three members of the Provisional Irish Republican Army were arrested by Customs in West Palm Beach, Florida, as they attempted to take possession of a Stinger missile. The investigation resulted in the conviction of the three terrorists for conspiring to violate the Arms Export Control Act.

The following year, three Croat nationals were arrested by Customs in Miami, Florida, for attempting to take custody of Stinger missiles, M–16 rifles and other munitions. Two of the Croats pled guilty to conspiracy to violate the Arms Export

Control Act; the third defendant died of natural causes. Customs is currently investigating numerous other cases where these missiles have been sought for unlawful export to groups or countries which threaten national or international security.

In another Customs investigation, undercover Customs agents, posing as Iraqi buyers, were able to purchase 9.5 tons of deadly nuclear grade Zirconium. Zirconium is the primary component in the production of Plutonium and can also be used in the manufacture of both chemical and biological weapons. This investigation represents the largest seizure to date of a nuclear-related material and underscores the problem of the easy availability of nuclear-related materials on the underground international market.

In addition to our strategic investigations, Customs also works with the intelligence community and other concerned agencies to establish closer communications on non-proliferation issues. This effort includes Customs participation in a variety of working groups which contend with nuclear, chemical, and biological weapons of mass destruction. From a global standpoint, Customs has taken a leadership role in the World Customs Organization in the nuclear smuggling area. Customs has also implemented an aggressive program to train and liaison with foreign counterpart customs services in Hungary, Russia, Romania, Bulgaria, Kazakstan, and the Ukraine to prevent nuclear weapons proliferation.

Child Pornography

Customs has always been in the forefront against the illegal trafficking and distribution of child pornography into and throughout the United States. We are charged with enforcing the Child Protection Act which calls for us to investigate any cases which involve the receipt, transmission, or manufacture of child pornography which has been shipped in foreign commerce.

Since the creation of the Child Pornography Enforcement Program in 1985, the efforts by Customs to combat the illegal importation of child pornography have been extremely successful. In recent years, as the use of computers and electronic bulletin boards became more prevalent, individuals with deviant sexual interests began to use them as a means of communication. In 1992, Customs initiated Operation LONGARM, an international investigation which identified purveyors who used a bulletin board system in Denmark to electronically transmit child pornography into the U.S. and 16 foreign countries. As a result, Customs agents executed 35 search warrants and have obtained 25 convictions to date. Operation LONGARM was the first investigation by a Federal agency to target the use of computers to electronically traffic in child pornography.

Since that time, Customs has been very active in the investigation of electronically transmitted child pornography as well as other forms of child pornography. From fiscal year 1992 through 1995, we obtained 156 arrests, 121 indictments, and 160 convictions, and made over 200 seizures pertaining to child pornography investigations.

Customs will continue to maintain an aggressive posture in targeting and investigating traffickers, distributors, and purveyors of child pornography. Our ultimate aim is to prevent the sexual exploitation and abuse of children here in the U.S. as well as abroad.

Intellectual Property Rights

The U.S. Customs Service has established itself as the world's pre-eminent border enforcement agency to combat international trafficking in counterfeit goods. Protection of intellectual property rights (IPR) is a trade enforcement strategy priority aimed at stopping illicit economic activity and supporting public health and safety.

It is estimated that worldwide American businesses are being injured to the amount of $200 billion because of inadequate foreign protection of U.S. intellectual property rights. Sound recordings, computer software, motion pictures, toys, video games and wearing apparel products are among the most frequently infringed products. In this era of a "global economy", we will face new challenges of predatory and unfair trade practices that damage domestic industries and U.S. business interests in particular.

Internationally, Customs continues to provide expertise and support to the Office of the U.S. Trade Representative and its interagency negotiating team trying to bring about adequate and effective IPR protection in China and other countries. In addition to bilateral IPR protection efforts with other nations' customs services, we have taken a leading role in the IPR protection efforts initiated by the 135-member World Customs Organization in Brussels, Belgium.

Customs refers most IPR violations for criminal investigation. In fiscal year 1994, Customs obtained 106 arrests, 60 indictments, and 58 convictions while in fiscal year 1995 Customs work resulted in 73 arrests, 65 indictments and 33 convictions.

In fiscal year 1995, Customs seized over $46.4 million worth of counterfeit merchandise.

International trafficking of counterfeit goods has been linked to organized crime. Investigations by Customs have resulted in the identification of several organized crime groups. One of our most significant cases was Operation PIPELINE. It was the result of a 2½-year investigation of the Korean Organized Crime Group. The operation targeted manufacturers, distributors, and salespersons of counterfeit merchandise. This was the first IPR case that dealt with all levels of an illicit corporate hierarchy. In September 1995, 43 Korean nationals were indicted for alleged trafficking in international counterfeit merchandise. Twenty-seven million dollars' worth of counterfeit goods were seized which included wearing apparel, perfume, hats, and handbags.

Importation of Merchandise Produced by Convict/Forced Labor

Customs authority in this area is derived from 19 U.S.C. 1307, which prohibits the importation of merchandise which has been produced in whole or in part with the use of forced, prison, or indentured labor. Customs uses a range of enforcement tools from seizures to criminal prosecution in order to enforce the law. The primary concern for Customs today is merchandise manufactured in the People's Republic of China (PRC). Of the 24 detention orders and 5 findings currently in force, 23 and 3, respectively, pertain to products manufactured in the PRC.

Although we believe that the overall scale of these importations is small, Customs has made the interdiction of convict/forced labor merchandise one of our trade enforcement priorities. We will continue to sensitize the importing community on this issue and work closely with the human rights organizations that assist us in this area.

Prohibited Trade

Customs also is the nation's "border guard" for approximately 40 other Federal agencies against the importation of articles which are prohibited. Importation of these articles can pose threats to public health and safety and the environment.

Some recent examples of Customs work in this area include:

—The interdiction of products which fail to meet Consumer Product Safety Commission requirements, posing a safety hazard to any person who attempts to use them. These products include fireworks, flammable fabrics, and toys.

—Several significant seizures of illicitly imported freon, an ozone-depleting chlorofluorocarbon refrigerant, on behalf of the Environmental Protection Agency. This importation is severely restricted under the Montreal Protocol for the Protection of the Stratosphere.

—Numerous seizures of various types of non-narcotic pharmaceuticals governed by FDA laws and regulations, for reasons ranging from lack of FDA approval of a drug, to misbranding a product to include false or unsubstantiated medical claims. This encompasses various types of medications from exotic remedies to steroids.

—The seizure of various products of endangered species in violation of the Endangered Species Act and the Convention on International Trade in Endangered Species, on behalf of the Fish and Wildlife Service. These products include such items as ivory, coral, and bear galls (bile), imported for purposes ranging from use in jewelry to exotic folk remedies.

There is no disputing that Customs plays a unique and diverse role in the Federal law enforcement community and has made many significant contributions to the welfare of this great nation. And let me stress again, Customs, as the nation's Number One border enforcement agency, is fulfilling its complex mission and, with the Committee's help, will continue to successfully meet all challenges that it faces in the future. I am quite proud of what we have accomplished.

Thank you again for this opportunity to appear before the Committee. You have provided tremendous support to us in the past and I look forward very much to a very productive future working with you.

I would be glad to take any questions you may have at this time.

U.S. Secret Service

STATEMENT OF ELJAY B. BOWRON, DIRECTOR

Senator SHELBY. Director Bowron.

Mr. BOWRON. Mr. Chairman, thank you very much for the opportunity to discuss the Secret Service's fiscal year 1997 appropriation. This budget reflects a net decrease in our funding that results primarily from nonrecurring campaign costs associated with the Presidential campaign. It also reflects an increase in our FTE's, and that is mainly for White House security. As you indicated, Mr. Chairman, I have submitted a statement detailing all of our requests.

The Service's request for funding from the crime bill includes program increases for White House security, vehicle replacement, computer systems and upgrades, and transfers of nonpay elements from the salaries and expenses account. Additional funding and FTE's are also requested in our "Salaries and expenses" account to implement security enhancements recommended by the White House security review.

Further, we are asking that a new account be created to fund the requirements of our new headquarters building in fiscal year 1997. The base funding for this new account would be transferred from the Department of Treasury's "Buildings and annex restoration" account. The fiscal year 1997 funding is needed for enhanced building security construction, contractor assistance, interior build-out and finishes, information systems, data center requirements, base building systems, and special purpose equipment.

Funding for these requirements is the responsibility of the Secret Service as they are not covered under GSA's Federal buildings fund. GSA is moving forward on the construction of our new headquarters building, and we expect groundbreaking in July 1996. It is expected that we will relocate to the new building beginning in the winter of 1999.

This budget also contains funding needed to continue the effort of establishing additional field offices overseas. As you know, Mr. Chairman, and as this committee has supported, the Secret Service continues to focus its efforts on the interdiction and suppression of counterfeiting of our currency in other countries. Thanks to Congress, and this committee in particular, as well as cooperation from the Department of the Treasury and the Department of State, we have been able to increase our presence abroad. We have recently staffed five new offices. The Montreal, Nicosia, Bogotá offices are operational now, and the Hong Kong and Milan offices are to be operational this summer. Also, staffing at the established offices in Paris, London, and Bonn has been increased.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement, and I will be pleased to answer any questions that you may have.

[The statement follows:]

PREPARED STATEMENT OF ELJAY B. BOWRON

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to discuss the fiscal year 1997 appropriation request of the U. S. Secret Service.

With me today, Mr. Chairman, are Richard J. Griffin, Deputy Director; W. Ralph Basham, Assistant Director for Administration; Richard S. Miller, Assistant Director for Protective Operations; David C. Lee, Assistant Director for Protective Research; Paul A. Hackenberry, Assistant Director for Investigations; and K. David Holmes, Assistant Director for Training.

I welcome this opportunity to review with this Subcommittee the Service's mission, and the importance of its programs in accomplishing that mission. In my testimony, I would like to detail the Service's fiscal year 1997 Budget Request, summarize current program performance, and outline significant events and issues for the current and budget years, and for the future.

FISCAL YEAR 1997 APPROPRIATION REQUEST

Salaries and Expenses (S&E)

The Service's Salaries and Expenses appropriation request for fiscal year 1997 totals $516,182,000 and 4,951 FTE positions. This is a net decrease of $15,964,000, and an increase of 279 FTE from the fiscal year 1996 appropriated level of $532,146,000 and 4,672 FTE. This request includes program changes of $13,538,000 and 279 FTE—mainly for White House Security; $17,634,000 in adjustments necessary to maintain current program performance levels; $13,920,000 for reductions, nonrecurring costs and savings; and $33,216,000 in decreased mandatory changes in workload.

S&E PROGRAM CHANGES

The Service is requesting $18,870,000 and 177 FTE for White House Security. A reallocation of 100 FTE from the Violent Crime Reduction Trust Fund Account to the Salaries and Expenses Account, is also requested.

The Service is requesting two (2) FTE for the Federal Law Enforcement Wireless Users Group (FLEWUG). This group was established to develop a National Law Enforcement Public Safety "Wireless" Network (PSWN). The fiscal year 1997 budget proposes that $5,000,000 in funding for this program come from the Department of the Treasury Forfeiture Fund.

Violent Crime Reduction Trust Fund (VCRTF)

The Service's fiscal year 1997 request for funding from the Violent Crime Reduction Trust Fund totals $28,761,000 and 48 FTE. This is a net increase of $7,161,000, and a decrease of 100 FTE from the fiscal year 1996 appropriated level of $21,600,000 and 148 FTE. This request includes $10,361,000 in program increases for White House Security, vehicle replacement, computer systems upgrades, and transfers of non-pay elements from the Salaries and Expenses account, which are offset by decreases for nonrecurred fiscal year 1996 funding of $3,000,000 for other Secret Service activities, and $200,000 for protective activities surrounding the 1996 Olympics.

VCRTF Program Changes

The fiscal year 1997 VCRTF budget requests $2,314,000 for White House Security, as well as the transfer of 100 authorized FTE to the S&E account. In fiscal year 1996 the VCRTF provides $8,322,000 for White House Security. This fiscal year 1996 amount represents the base funding available in fiscal year 1997, and along with the incremental $21,184,000 requested, provides total funding nearly equal to the level requested for this initiative in the fiscal year 1996 amended request.

The Service is also requesting $325,000 from this fund to maintain a new security system at the White House. Base funding of $675,000 for this project is available in the Salaries and Expenses account.

VCRTF funding of $1,000,000 is also requested to provide additional replacement vehicles for the Service's investigative sedan fleet. Without this funding, by the end

of fiscal year 1997, 57.8 percent of the vehicles in the sedan fleet will have over 60,000 miles on them; the current federal replacement standard.

Funding of $100,000 is also requested for the replacement of two surveillance vans. Seventy-seven percent of this van fleet exceeds the federal replacement standards for age or mileage.

This request also includes $57,000 needed to replace two "follow-up" vehicles. Ninety-nine percent of these "follow-up" vehicles currently exceed, or are expected to exceed the federal age and/or mileage standards by the end of fiscal year 1997.

The Service is also requesting $1,400,000 from this fund, to design and build one additional primary limousine.

Funding of $1,883,000 is requested to selectively replace the oldest components of, and add capacity to, the mainframe computer system. Selective replacement allows the system to continue to support the Service's information processing needs while avoiding the larger costs associated with replacing the entire computer. By fiscal year 1997, the Service's mainframe computer system will be ten years old, and will have reached its effective capacity to handle user workload.

Funds of $250,000 are requested to establish a contract for modernizing and enhancing the Service's Workload and Statistical Reporting System (WSRS) and the Manhour Reporting System (MRS). These systems will be completely redesigned, using the latest versions of the applications software on the mainframe.

WSRS and MRS system enhancements are necessary to meet the new requirements of the Government Performance and Results Act (GPRA) of 1993, the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994 (GMRA), as well as assist managerial decision-making.

Acquisition, Construction, Improvement, and Related Expenses (ACIRE)

In fiscal year 1997 the Service is also requesting that a new account with $29,165,000 be created that will be devoted to funding the fiscal year 1997 requirements of its new headquarters building. In fiscal year 1996, $13,807,000 was appropriated to the Departmental Office's Treasury Buildings and Annex Repair and Restoration account for this ongoing project. This amount, which is to be transferred to the new account, represents the base funding for this new account, with $15,358,000 in incremental funding being requested in fiscal year 1997.

The fiscal year 1997 funding is needed for enhanced building security construction, contractor assistance, interior build-out, information systems, data center requirements, and base building and special purpose equipment. Funding for these requirements is the responsibility of the Service and is not covered with the construction of the building through GSA's Federal Buildings Fund.

PROTECTIVE RESEARCH

Beyond the actual dollars being requested in the fiscal year 1997 budget, I would also like to address more directly the Service's program operations. The Service's Office of Protective Research has oversight of technical security, protective intelligence, communications, and information resources management support for both the protective and investigative missions of the Service, and administers the Service's Strategic Management Program.

As a result of last year's White House Security Review, the Service was tasked with implementing a number of recommendations for enhancing security at the White House Complex. The Service has been diligently addressing those recommendations. The perimeter of the Complex has been extended and Pennsylvania Avenue closed. Work to complete recommendations that are not funding dependent is ongoing, and other recommendations will be completed as funding becomes available.

Temporary physical barriers were installed around the expanded boundary of the White House Complex to restrict public vehicles. Permanent crash resistant barriers and guard booths have been designed and will be installed at new control points around the White House perimeter.

A new state-of-the-art command/control/communications center is being developed for the White House. The center will be the focal point for all intrusion alarms, video assessment, communications, and air intrusion detection and assessment. It is scheduled for completion in the fall 1996.

The first phase of the armored window program at the White House was completed last month, with the installation of the remaining two of 23 windows involved with this phase. A challenging design of several unique, non-standard shaped armored windows in the second phase of the program will be completed this Fall, with installation scheduled for 1997. The funding for these first two phases has already been appropriated. Also underway is the third phase of this program which includes installing an additional 38 armored windows in the White House, including the

West Wing. With funding requested in the fiscal year 1997 VCRTF budget, it is anticipated that this third phase will also be completed in 1997.

There is a comprehensive program to detect and thwart chemical and biological attacks against the White House. This program includes the use of specialized scientific equipment, systems to detect and protect against chemical and biological threats, coordinated response plans, and the training of Secret Service personnel to properly respond to an attack employing chemical or biological weapons.

Protective intelligence is also a critical component of the Service's protective mission. Through the Service's protective intelligence efforts, threat assessments are developed in support of protectee visits to domestic and foreign settings; warning indicators are provided for specific and generalized threat environments; liaison is strengthened with the mental health, law enforcement, and intelligence communities; and operational studies are conducted to maintain the ability to predict dangerousness.

During fiscal year 1995, the Secret Service investigated and evaluated 2,067 protective intelligence cases, resulting in 70 arrests and 260 mental health commitments. This same high level of protective intelligence case activity continues this fiscal year. In the first quarter of fiscal year 1996, 497 protective intelligence cases have been investigated and evaluated, resulting in 16 arrests and 59 mental health commitments. Because of the Presidential Campaign and the Inauguration it is anticipated that protective intelligence activities will remain high throughout fiscal year 1996 and much of fiscal year 1997.

There are two activities which exemplify the proactive protective intelligence position of the Service: the Exceptional Case Study Project (ECSP) and the Counterterrorism effort.

—The ECSP establishes profiles and behavior patterns to predict and deter violence directed at protectees by analyzing the behavior characteristics of individuals who threaten protectees.

—The Federal Bureau of Investigation (FBI) is establishing an enhanced Counterterrorism Branch to better combat the changing nature of international and domestic terrorists. This Counterterrorism Branch will provide coordinated interagency counterterrorist support for the management of special events in this country, such as the Olympic Games and national political conventions. The Service, as well as other Federal agencies, will provide analytical and investigative support for this new program.

The Public Safety Wireless Network envisioned by Vice-President Gore's National Performance Review represents the first time federal agencies have been commissioned to resolve the long-standing deficiencies of radio communications interoperability and tactical radio coverage that have plagued the cooperative efforts of law enforcement and public safety agencies at all levels. The Service serves as the Department of the Treasury Executive Agent for wireless programs and provides a co-chair to the Federal Law Enforcement Wireless Users Group (FLEWUG).

This National Performance Review initiative, jointly sponsored by the Departments of the Treasury and Justice, is focused on implementation of a nationwide wireless network for use by federal, state, and local public safety agencies. A key issue for this initiative is the availability of radio spectrum for current and future requirements. The Service along with the Federal Bureau of Investigation (FBI), is actively involved in the Public Safety Wireless Advisory Committee to preserve needed radio spectrum.

PROTECTIVE ACTIVITY

During September and October of 1995 protection was provided for 154 Heads-of-State/Government and 72 accompanying spouses during the 50th Anniversary celebrations of the United Nations General Assembly. Also, Pope John Paul II visited New York and Baltimore during these celebrations. This was the largest single protective event in Secret Service history.

In fiscal year 1995 the Service protected 34 Heads-of-State/Government during the Summit of the Americans in Miami. President Clinton also hosted, and the Service provided protection for, the attendees of the Asian Pacific Economic Conference in Seattle. The Service also provided protection for the participants at the Bosnian Peace Summit in Dayton. In total, 224 Heads-of-State/Government and 88 spouses were provided protection during 830 cities in this country last fiscal year. Foreign dignitary protection this year will include the comprehensive protective effort involved with the 100th Anniversary Olympic Games in Atlanta.

President Clinton and Vice President Gore and their families visited 1,351 domestic cities and 97 foreign cities in fiscal year 1995.

The Service is currently active with providing candidate protection, and with planning security for two Presidential Nominating Conventions in Chicago and San Diego, and the extensive campaign travel prior to the elections in November. After the election, preparations will begin for the Inauguration.

The Service's Uniformed Division officers, using magnetometers, screened 1,753,182 visitors to the White House and the Naval Observatory last fiscal year. In addition, officers used magnetometers at 366 other protective sites during the year.

Last fiscal year, officers assigned to the Foreign Missions Branch made a total of 1,456 arrests. Officers assigned to the White House Branch made a total of 71 arrests. In addition, the canine units, which support the White House and Foreign Missions Branches, as well as presidential travel, conducted 105,502 vehicle searches. Also, the counter sniper teams were deployed at 1,157 sites in protective support for the President, Vice President and foreign dignitaries. Finally, the Emergency Response Team was deployed 6,451 times, providing posting for arrivals and departures of the President, Vice President and foreign dignitaries, and responding to fence-jumpings and alarms, and demonstrations at the White House and within the diplomatic community in Washington, D.C.

INVESTIGATIVE ACTIVITY

The Service's investigative activity represents the other significant element of its mandated mission. For over 130 years, the United States Secret Service has effectively served to protect the integrity of our nation's financial systems. Whether that involves the suppression of counterfeit currency, or the combating of financial institution, access device, or computer fraud, the Secret Service has been successful, bringing to each of these investigative areas its unique expertise and forensic talents.

Currently there exists a need for the Secret Service to focus its efforts on the interdiction and suppression of the counterfeiting of U. S. currency overseas. Thanks to the Congress and the cooperation of the Departments of Treasury and State, the Service has been able to do this through the expansion of its presence overseas.

The Service has recently staffed five new offices. The Montreal, Nicosia and Bogotá offices are operational, and the Hong Kong and Milan offices are to be operational this summer. Also, staffing at established offices in Paris, London and Bonn has been increased.

This overseas presence is absolutely critical to thwarting the potential economic threat that foreign counterfeiters present. An analysis of counterfeit U.S. currency passed within the United States during the past fiscal year indicates that over 69 percent was manufactured overseas. This is up from 65 percent in fiscal year 1994, and 37 percent in fiscal year 1990. Given the targeting of American financial systems by foreign criminal elements, the Service's enhanced overseas presence is absolutely essential to holding the line against sophisticated and well-financed criminal enterprises.

As society migrates to an increasingly electronic environment, the Service has proactively responded to the frauds and other vulnerabilities that this process introduces. It is easy to trace the evolution of the payment system from cash to the present day bank-issued credit card and credit system. This has become the preferred method of money transactions worldwide, and accounts for 16 percent of all domestic financial transactions, and an even larger percentage of transactions over $100.

With the next evolutionary step being electronic cash and the transfer of funds through electronic networks, the Service has already established itself as an important resource for the many industries that will be cultivating, developing, and/or facilitating this activity. The telecommunications industry will be the backbone upon which much of this activity is built. The Service has been working with carriers and manufacturers for years to proactively identify and address vulnerabilities inherent with the development and protection of their systems.

Also, the Service continues an important association with the credit card industry and financial institutions as they evolve through their marketing and technological expansions; working closely with the industry during the development of telecards, smartcards, biometrics authentication, interactive opportunities and, most recently, as they plan to meet the demands for electronic compensation. Historically, these industries have been exposed to billions of dollars in fraud and other losses.

Also, computers are being used extensively in financial crimes. They are being used to hack into data bases and retrieve account information, to store account information, to clone microchips for cellular telephones, and to scan corporate checks, bonds, and negotiable instruments being counterfeited.

Financial institutions will also share a portion of the security and liability responsibilities associated with fraud attacks on Electronic Benefits Transfer (EBT). Therefore, the Service is taking a proactive approach to EBT and is advising the EBT Task Force as to how best to include fraud deterrent features in this new system as it is designed.

A significant initiative involving the Service's investigative activity is the Treasury Recipient Integrity Program or TRIP. Recently, in cooperation with the Department of Defense and the Railroad Retirement Board, projects were completed in the Philippines, Guam, Canada and Puerto Rico. Verification interviews were conducted with over 12,400 recipients and, as a result, annual savings of $5.1 million were identified. TRIP risk assessments are scheduled to be performed in Spain and Italy within the next several weeks in conjunction with the Departments of Defense and Veterans Affairs, and the Social Security Administration.

The Service is also exploiting technology to more effectively meet the needs of its protective and investigative missions. Further, because of the unique nature of this technology the Service is able to leverage its use to assist State and local law enforcement.

As technology changes the investigative landscape, the Service likewise must use technology when developing the investigative tools it uses. A new forensic initiative, which began this past January, involving the Service's Forensic Information System for Handwriting (FISH), the Capitol Police, and the Federal Bureau of Investigation (FBI) will allow for the searching of handwritten threat letters directed at members of Congress and Supreme Court Justices. This search will be made using the Service's established Presidential threat letter database. Experience has shown that those who write threatening letters to members of Congress and Justices may already have, or may in the future, threaten the President, Vice President, former Presidents and visiting foreign Heads-of-State/Government. Investigative information derived from links or consolidations with these types of cases will help facilitate the successful resolution of Secret Service, Capitol Police and FBI threat investigations.

Consideration is now being given to expanding the use of this technology to include threatening letters directed to state Governors. The Service is the only organization in the United States with this technology.

The Service also maintains the largest writing ink and watermark files in the world. Requests are routinely received from other federal law enforcement and non-law enforcement agencies, state and local law enforcement agencies, foreign law enforcement agencies, and the intelligence community to establish the date or authenticity of documents through an analysis of ink and/or watermarks. The Service has established a computer bulletin board system which allows other forensic laboratories access to these libraries.

Beyond assisting through the use of unique technology, the Service's security expertise is also called upon to assist other federal, state and local governmental entities. Its experience in security surveys has been frequently called upon, particularly during the past year. As a result of the increased security awareness for federal facilities within the United States, the Sergeants at Arms of the House of Representatives and the Senate, as well as the Architect of the Capitol, requested that the Service conduct a security survey of certain Capitol buildings.

The Service, under Project Safe Home, continues its public housing security surveys in support of state and local governments, and the Department of Housing and Urban Development (HUD). The first Safe Home survey was conducted at the Hollander Ridge public housing development in Baltimore, Maryland in fiscal year 1994; the second at the Irvinton Village public housing development in Houston, Texas in the early part of fiscal year 1995; and a third survey, designated by HUD for the S. James Herman Gardens public housing development in Detroit, Michigan, resulted in the local housing authority planning for the complete renovation of the development.

The Service also continues to be the leading bureau working through the Treasury's Forfeiture Fund with regard to victim restitution—the most important aspect of asset forfeiture. During the past year, approximately 400 petitions for the return of property were received, and the Service was able to return property valued at approximately one-third of a million dollars to innocent owners, lienholders, and the victims of crime.

TRAINING

To successfully meet the ever more demanding challenges posed by its protective and investigative missions, the Service continues to rely heavily on its training activity. Recently the Service formed a partnership with the Lawrence Livermore Na-

tional Laboratory and several components of the Department of Defense to utilize the benefits of a $30 million research and development project on state-of-the-art computer modeling. The Service has now begun the development of a "Security and Incident Modeling Laboratory (SIMLAB)" which will allow it to conduct training, table top crisis management exercises, incident modeling, and security analysis. The Service anticipates the modeling concept may also have additional applications in operational planning.

FUTURE PLANS

The future holds many challenges for the Secret Service. The 1996 Presidential campaign's final month of travel and protective activities before the November general election will occur at the beginning of fiscal year 1997. Inaugural protective activities will follow. Protection for an average of 45 attendees at the Annual United Nations General Assembly fall meetings will be required during September and October, 1996.

In the administrative area, GSA is moving forward on the construction of the Service's new headquarters building, with ground breaking for this construction scheduled for this coming July. It is expected that relocation to the new building will begin in the winter of fiscal year 1999. In addition to the headquarters consolidation, the Service is also planning to consolidate its training facilities. A first step in this process is the construction of the Administration Building at the Rowley Training Center in Beltsville, Maryland; the funding for which was provided by the Congress in fiscal year 1995. However, there is still much that needs to be done to fully implement the Service's current Master Plan for the Beltsville facility, to include the construction of a classroom building.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions that you or other members of the Subcommittee may have.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF JOHN W. MAGAW, DIRECTOR

Senator SHELBY. Director Magaw.

Mr. MAGAW. Thank you, Mr. Chairman. Like my peers, I welcome this opportunity to present our fiscal year 1997 budget request, and to highlight initiatives that we believe will enhance our criminal and regulatory enforcement efforts. With me today is Brad Buckles, our Deputy Director, and members of our executive staff. All of us want to express our appreciation to your dedicated and talented staff who work with us day in and day out throughout the year.

I proposed to use these few minutes to describe the two major themes driving our budget request. The first is our integrated violence reduction strategy that is designed to reduce firearms and explosive-related violence through regulation, through enforcement, and through a community outreach. The second is the revitalization of our operational base. This will provide us with the funds for essential equipment, information architecture, and the training needed to carry out our diverse mission. The critical base restoration will position ATF to carry out our strategic planning initiatives and deliver maximum benefits to the American public.

INTEGRATED VIOLENCE REDUCTION STRATEGY

With regard to our violence reduction strategy I wish to highlight several key programs we are seeking to fund. We propose to pilot a new firearms trafficking strategy in New York City and Miami that will more effectively focus our investigation resources.

We plan to expand our integrated ballistics technology to five additional cities. This technology is the heart of our Ceasefire Program that has yielded significant results in violence-plagued communities across the country.

We propose to implement technical advancements and increased staffing at our national tracing center. These improvements will reduce the burden on industry while protecting the privacy of gunowners and providing better service to law enforcement. Firearms tracing is an important tool not only in the fight against violent crime and firearms trafficking, but also against the worldwide narcotics trafficking and terrorism.

We plan to expand recently developed Project LEAD software to additional ATF field offices. This system enables us to analyze firearms trace results and identify trafficking patterns.

We plan to continue our assistance to the many State and local police departments who contact us daily for gang resistance and education training programs. This program has reached 2 million children, and as you know, enforcement and prosecution alone will not solve the Nation's crime problem. It is critical that law enforcement officers engage in outreach programs to positively connect

with the community and to win the hearts and minds of those most vulnerable to the allure of crime, our children.

REVITALIZATION OF BASE OPERATIONS

Second, the important theme in our budget relates to the revitalization of our operational base. These are a few of the things we must do: We must replace sorely needed equipment such as motor vehicles, computers, special, investigative, and radio equipment, and continue funding our authorized FTE's under the violent crime reduction trust fund.

We need to reengineer our automatic data processing [ADP] infrastructure. This will lay the foundation to connect our offices nationwide, integrate existing information systems, and connect to Federal, State, and local networks. Similarly, we need to create a unified financial network, integrating the multiple tax, fee, permit, and licensing procedures into a single data collection system. We are requesting a new appropriation in the amount of $62 million to purchase land and to design and construct a combined laboratory and a unique fire research facility. ATF is the Federal Government's expert in arson and explosive investigations, in their analysis, and in training concerning those investigations.

Finally, we need financing to enhance our expertise through training and professional development in the area of arson and explosives. The priorities contained in this budget flow from our strategic plan. As ATF moves toward our vision of a sound and safer America we are guided by a plan designed to effectively serve the public, manage resources, measure results, and continuously adjust to change.

PREPARED STATEMENT

Thank you for the opportunity to mention our highlights in our 1997 budget.

[The statement follows:]

PREPARED STATEMENT OF JOHN W. MAGAW

Thank you Mr. Chairman, Senator Kerrey, and members of the Subcommittee. I welcome this opportunity to further acquaint you with some of the improvements of ATF and the unique value we bring to the American public. I am also here today to support the Bureau's fiscal year 1997 budget request of $434,642,000 and 3,921 full-time equivalent positions (FTE's) which includes $28,637,000 and 62 FTE's from the Violent Crime Reduction Trust Fund. In addition, I am requesting a new appropriation for laboratory facilities in the amount of $62,000,000.

With me today are my executive staff members. If I may, I would like to introduce several new executive appointments. Mr. Bradley Buckles, our new Deputy Director, replaces recently retired Deputy Director Daniel Black. Mr. Buckles was formerly the Bureau's Chief Counsel. Also with me is Mr. Andrew Vita, our new Associate Director for Enforcement, Mr. Patrick Hynes, Assistant Director for Liaison and Public Information, and Mr. Stephen McHale, Chief Counsel. Since these new members have not appeared before your committee, I am submitting biographical sketches for the record at this time. Executive staff members who have appeared with me before are Mr. Richard Watkins, Assistant Director for Management and Chief Financial Officer, Mr. Arthur Libertucci, Assistant Director for Science and Information Technology, Ms. Gale Rossides, Assistant Director for Training and Professional Development, Mr. Richard Hankinson, Assistant Director for Inspection, and Ms. Marjorie Kornegay, Executive Assistant for Equal Opportunity.

Before I report to you on our program changes and accomplishments, I would like to provide you with a brief overview of ATF—its mission and recent developments and changes.

INTRODUCTION

The Bureau enforces the Federal laws and regulations relating to alcohol, tobacco, firearms, explosives, and arson by working directly and in cooperation with others to:

—Suppress and prevent crime and violence through enforcement, regulation, and community outreach;
—Ensure fair and proper revenue collection;
—Provide fair and effective industry regulation;
—Support and assist Federal, State, local, and international law enforcement; and
—Provide innovative training programs in support of criminal and regulatory enforcement functions.

In support of this mission, the following are some highlights of our everyday work over the past year:

—The conviction of a bomber apprehended by ATF within 48 hours of mailing a bomb to a Senate staffer last summer.
—The indictment of a tax protester who is believed by ATF to have plotted to bomb an IRS Service Center in Texas, the workplace for more than 3,000 employees.
—The conviction of a firearms trafficker arrested by ATF for supplying guns from Alabama to criminals here in Washington, D.C., one of which was used to murder a District police officer and two FBI agents inside Police Headquarters.
—The alcohol excise tax assessment of $2.5 million dollars levied by ATF against a distiller who was involved in an unlawful diversion of distilled spirits.
—The conviction of a bomber charged by ATF with killing the father of a State witness in Washington. He was sentenced to two life terms without parole plus 40 years.
—In January, 1995, a former FFL pled guilty to violations of the Federal firearms laws as a result of selling over 1,000 firearms, without completing any of the required paperwork, to the Vice Lords Street Gang.
—The conviction of a bomber charged by ATF for his involvement in a series of bombings in New York which left five people dead and two injured. He was sentenced to four consecutive life terms plus 30 years.
—The ATF investigation of a Pennsylvania man who during the armed robbery of a gun shop near Pittsburgh shot and killed an employee and wounded another person. The suspect was convicted of first degree murder and sentenced to death by lethal injection.

Year after year, ATF works to make America a safer place for all of us by fighting violent crime. ATF's unique position of being vested with the enforcement of the Federal firearms and explosives laws and the regulation of those industries puts it at the forefront of violent crime enforcement. At our disposal are valuable assets that assist us in carrying out investigations against those who violate these statutes.

Our National Tracing Center, provides 24-hour assistance to Federal, State, local, and foreign enforcement agencies in tracing guns used in crimes. It is the only facility of its kind in the world. ATF's National Response Teams (NRT's), consisting of special agents, explosives technicians, and forensic scientists, respond to major incidents within 24 hours of a request to assist in large-scale fire and explosives scene investigations.

In addition, to support its criminal enforcement mission, ATF inspectors maintain regulatory oversight of the legal explosives industry, including 13,000 explosives licensees and permittees. ATF's jurisdiction and specialized expertise are unique and provide invaluable services to the public through enforcement, regulation, and cooperative industry partnerships. This is particularly true in our efforts on firearms and explosives-related violence.

The statutes ATF enforces involve a blend of tax, regulatory and criminal functions that the Treasury Department is uniquely suited to handle. Treasury law enforcement functions have always involved criminal laws interwoven with revenue laws and regulatory controls, whether in the enforcement of tax or trade law, currency protection, or firearms regulations. In the case of the firearms and explosives industries, the criminal investigative responsibilities cannot effectively be separated from the tax and regulatory responsibilities because they are so technically and practically interwoven.

The area of our work that is the most controversial is firearms. Because ATF is responsible for enforcing our Nation's gun laws, some have tried to portray ATF as a threat to the Constitutional right for lawful private ownership of firearms.

In the area of firearms, our mission is simple—to reduce gun violence and to fairly and effectively regulate the legitimate firearms industry. Our targets are crimi-

nals who illegally use and/or supply guns to other criminals. The enemy of the law-abiding gun owner is not ATF; the enemy is the violent armed criminal. Every time someone fires indiscriminately into a school yard, or a crowded court room, or sprays gunfire at the White House, or targets law enforcement officers, we are reminded once again of the dangerous times in which we live.

The more successful we are in keeping guns away from criminals, keeping illegal gun traffickers from reaching children, and prosecuting those who use guns in crime, the safer all Americans are. That is ATF's mission—enforcing the law on behalf of the American people.

RECENT DEVELOPMENTS AND CHANGES

ATF and its predecessor agencies have rendered honorable and effective service for generations. As with all organizations, we have gone through changes. Effective organizations continuously re-examine the way they do business. Over the last several years we have sought to improve management, training, and operational systems. These changes have provided the framework for making ATF a stronger and more effective organization.

Following an increase in Treasury Department oversight, I instituted a series of leadership and operational changes. We focused on instilling a Bureau-wide sense of unity based on the uniqueness of an agency with interwoven tax, regulatory, and criminal enforcement functions and skills. I immersed myself in ATF's operations and organization by listening to the employees, the regulated industries, and those in the law enforcement community who work with ATF and embarked on a series of "Town Hall" meetings at Bureau Headquarters, where employees could air their concerns. I also visited nearly every ATF field division and district office in the Nation, talking to inspectors, special agents, auditors, and support staff.

Next, I restructured ATF's organization enabling the agency to operate more effectively by promoting cooperation and accountability.

A strategic planning process was instituted and linked to the budget. In compliance with the Government Performance and Results Act (GPRA), the Government Management Reports Act (GMRA), Executive Order 12862, Setting Customer Service Plans, the Workforce Restructuring Act, and the Chief Financial Officers Act, the following initiatives have been undertaken:

—Establishment of five customer service plans;
—Establishment of a Chief Financial Officer (CFO) Steering Committee to oversee the process of producing our first annual report and audit statement for fiscal year 1995;
—Restructuring to achieve cost savings, increase supervisory span of control, reduce high grade positions, aligning FTE's with workload priorities;
—Establishment of a 5-year strategic plan integrated with the budget process, to better clarify our mission, goals, and strategies;
—Identification and development of outcome-oriented goals to measure our program effectiveness;
—Development of our first annual performance plan for fiscal year 1997.

Other changes include major initiatives in areas such as:

—Training—to improve the performance of employees and management, measure their achievements, and assist in their professional development so as to improve the overall effectiveness of ATF;
—Equal employment opportunity—to ensure that ATF reflects America;
—Technology—to take advantage of emerging technology and improve service to the public;
—Forging stronger partnerships with industry, academia, and concerned groups—to communicate and reach out to the industries which ATF regulates through forums, symposiums, newsletters, and other publications;
—Internal communication—to ensure that employees can obtain answers to work-related activities and ATF programs through the office of the Ombudsman;
—External communication/customer service—to ensure that ATF customers (e.g. industry) have someone to listen to their concerns, a pilot was established in the Office of the Ombudsman. This pilot involves the Firearms and Explosives Licensing Center and the Cincinnati Technical Services Office;
—Establishment of the Office of Inspection—to conduct both internal affairs investigations and operational reviews. This office has been working in a collaborative and cooperative manner with GAO during a multi-part survey. Although ATF has had an opportunity to review portions of the draft, the final survey report had not been released as of the date of my statement.

Changes were made in the planning, execution, and post-raid aspects of criminal enforcement investigations. ATF has implemented Treasury's new Use of Force Policy, building on, and strengthening the solid use of force policies ATF had in place.

ATF's Special Response Team (SRT) program has also been reexamined, and the number of teams is being reduced. New standards have redefined how and when SRT's will be deployed. There is an increased emphasis on pre-raid intelligence, non-tactical options, contingency plans, and training. There are changes in the duties and responsibilities of operational commanders and management.

To carry ATF into the next millennium, we have identified the following four key strategies upon which we are basing our resource requests:

—to effectively contribute to a safer America through an integrated violence impact initiative;

—to maximize ATF's effect on crime and violence through the collection, analysis, and exchange of information and strategic intelligence;

—to maximize the advantages of technology for ATF and the public;

—to establish cooperative working relationships with industries, academia, and concerned groups through a formal ATF program.

RESOURCE REQUESTS

Before I move to more details of our program accomplishments, I wish to highlight our budget initiatives which, if approved, will move us closer to reaching our strategic goals and strengthen the management infrastructure and tools necessary to carry out our unique missions.

Our direct appropriation request includes the following initiatives:

—Information Architecture: $3,000,000

Supports a comprehensive analysis and re-engineering of the ADP infrastructure which will lay the foundation for connecting our offices nationwide, allowing inter-office information and documents transfer capability, integrating existing information systems, automating manual systems, and connectivity to other Federal, State, and local systems.

—Restoration of Operational Resources: $5,000,000

Funds are sorely needed to replace equipment for motor vehicles, special investigative and radio equipment, computers, and investigative and vehicle supplies.

Our Violent Crime Reduction Trust Fund request includes the following initiatives which are at the cornerstone of our integrated violence impact strategy.

—Firearms Trafficking (Disarming the Criminal): $4,313,000 and 16 FTE's

Allows ATF to pilot a proof-of-concept in New York City and Miami. Utilizing ATF's unique resources, academic partnerships, and new state-of-the-art technology, ATF has developed a firearms trafficking strategy that can identify violators and focus our investigative resources to stem the flow of firearms to criminals.

—CEASEFIRE: $3,662,000 and 9 FTE's

At the heart of the Bureau's Integrated Violence Impact Strategy, this program places technical equipment including one Integrated Ballistic Identification System (IBIS) at 5 additional sites to increase the number of partnerships already in operation. The sites are: the Commonwealth of Pennsylvania; Nebraska; Illinois; Washington State; and the City of Minneapolis, Minnesota. The purpose of this program is to assist local police in solving firearms-related crime.

—National Tracing Center (NTC): $4,738,000 and 19 FTE's

Supports the rapidly growing demand from both ATF and other law enforcement agencies for tracing firearms involved in criminal investigations. Sharp increases are expected to arise for services from the NTC as a result of ATF's efforts to educate the law enforcement community on the value the NTC can provide, instituting electronic capabilities for receiving and transmitting trace requests from our law enforcement counterparts via the National Law Enforcement Telecommunications System, and by allowing large police departments to submit trace requests in batches rather than individually.

—Project LEAD: $800,000

Will expand to more ATF field offices and thus expand the program to additional cities nationwide. Also provides additional technical support and enhancements to Project LEAD software, thus providing more intelligence data to field investigators.

Other initiatives necessary to enhance the management and effective operations of the Bureau and continue to carry out programs already in place are:

—Technical Training: $1,000,000

Funds to increase the level of technical expertise, revitalization and strengthening of training in specialized areas that are emphasized in our strategic plan, including firearms, arson and explosives investigations.

—Continuation of the G.R.E.A.T. Program: $10,200,000 and 16 FTE's

To continue the partnership originally established between ATF, the Phoenix Police Department and the Federal Law Enforcement Training Center to utilize the expertise of each agency to provide gang resistance and anti-violence instruction to children in a classroom setting.

—Continuation of Enhancements to Financial and Revenue Collections Systems, Investigative Operational Funds, and National Laboratory Engineers: $3,924,000 and 2 FTE's

To continue modernizing the financial accounting system and work toward the development of a single, unified financial system, thus eliminating the need for multiple financial systems. Funds will also allow continuation of integrating the multiple tax, fee, permit and licensing systems into a single data collection system. FTE's are requested to support the National Laboratory relocation.

—Continuation of funding the positions established through the fiscal year 1996 Violent Crime Reduction Trust fund: $9,100,000 and 91 FTE's.

ATF is also requesting a new appropriation in the amount of $62,000,000 for laboratory facilities. This new fund would allow the Bureau to purchase land, and design and construct both a new laboratory facility and a unique Fire research facility which will support our arson investigative function. An analysis shows building instead of leasing will save the Federal government in excess of $100,000,000 over the period of a 20 year lease. (See page 21 for further budget request justification.)

A review of the Bureau's history, recent incidents necessitating a reevaluation of the Bureau's mission and highlights of ensuing changes bring me to a point of discussing the Bureau's recent achievements and accomplishments. Interwoven in the following program highlights will be the Bureau's plans for fiscal year 1997 and beyond.

PROTECTING THE PUBLIC THROUGH FIREARMS AND EXPLOSIVES ENFORCEMENT

ATF recognizes the role that firearms, explosives, and arson play in violent crimes and pursues an integrated regulatory and criminal enforcement strategy to impact these crimes. Investigative priorities focus on armed violent offenders and career criminals, armed narcotics traffickers, violent gangs, and domestic and international arms traffickers. Sections 924(c) and (e) of Title 18 of the United States Code provide mandatory and enhanced sentencing guidelines for armed career criminals and narcotics traffickers. ATF uses these statutes to target, investigate and recommend for prosecution these types of offenders to reduce the level of violent crime and to enhance public safety.

FIREARMS ENFORCEMENT

As part of the Bureau's integrated violence impact strategy, key programs come into play, our CEASEFIRE Program, Project LEAD, the Achilles Program, and Firearms Trafficking. We are requesting to expand these very effective programs to focus enhanced resources on violent criminals and illegal firearms traffickers. The following discusses these key areas for which we are requesting increases and our other ongoing firearms enforcement efforts.

Firearms Trafficking (Disarming the Criminal)

The investigation of illegal firearms trafficking is one of the highest priorities within ATF. Illegal firearms trafficking is the acquisition of firearms for the principal purpose of making firearms available to others in violation of the law. Amendments to the Crime Control Act of 1990, the Brady Act, and the Violent Crime Control and Law Enforcement Act of 1994 have provided ATF with additional jurisdiction to pursue illegal firearms traffickers and reduce the availability of firearms to criminals.

Project LEAD

ATF has recently developed state-of-the-art computer software to analyze firearms trace data maintained by the National Tracing Center. Through Project LEAD, information captured during the tracing process enables ATF and other law enforcement agencies to identify and target potential illegal firearms traffickers.

Firearms Tracing

The ATF National Tracing Center traces the origin and ownership of guns used in crimes and is sharing this information with law enforcement agencies. The information, which is only from recovered and traced crime firearms, can be requested by Federal, State, local, or foreign law enforcement agencies.

Criminal firearms trace statistics are maintained for each State, and investigative leads are furnished to the law enforcement community by identifying suspected traffickers.

During fiscal year 1995, approximately 79,000 requests for firearms traces were processed. Urgent traces are usually completed within minutes.

CEASEFIRE

In response to the growing need for Federal assistance in communities experiencing serious gang and drug-related shooting incidents, ATF initiated a comprehensive enforcement approach entitled CEASEFIRE. This approach to repetitive violent crime combines all of our firearms assets—tracing, trafficking, violent offender program, and our Achilles programs experience with the latest forensic technology. At the heart of the program lies the Integrated Ballistic Identification System (IBIS), which is a computer imaging identification system capable of assisting the firearms examiner in linking firearms to expended ammunition and multiple shooting incidents. It also allows investigators to link shootings in one city to shootings in another. The system does not replace the firearms examiner, but helps find the proverbial needle in the haystack in seconds rather than what used to take weeks and sometimes months.

To date, ATF has established the CEASEFIRE Program in the Washington, Atlanta, San Francisco, Boston, New Orleans and Detroit metropolitan areas. The CEASEFIRE Program has begun to yield significant results in violence-plagued communities across the country. ATF fully expects this program to contribute significantly to the identification of homicide and shooting suspects and the linking of related gangland shootings.

Washington, DC.—Two firearms seized by local police in relation to a multiple homicide investigation were linked to two additional homicides that detectives did not know were related. Three suspects have been arrested in connection with the murders, and two additional suspects have been arrested and convicted of Federal firearms violations committed in the unlawful transfer of the firearms.

Montgomery County, MD.—During February 1996, IBIS matched a firearm seized in Montgomery County, with an open double homicide investigation. The weapon had been seized from two individuals who were arrested by Montgomery County Police Department officers. The weapon had been linked to a double homicide in the District of Columbia that occurred on July 5, 1994. Preliminary inquiries reveal that the IBIS identification may be a significant lead to solving the homicide investigation.

Boston, MA.—On August 10, 1995, during a vehicle stop, an officer observed the passenger to be in possession of a firearm. A foot chase ensued which resulted in an arrest and the recovery of a 9 mm Stallard Arms pistol. The weapon was test fired, and entered into IBIS. The firearm was matched to a July 28, 1995, double homicide where two other victims were wounded. The weapon was also matched to an April 23, 1995, homicide where two additional victims were also wounded. This case is pending further investigation by homicide detectives.

With additional resources, the Bureau will place IBIS and other technical equipment in seven additional locations, establish a multi-media firearms reference library, continue the development of modular firearms examiner training certification programs, network IBIS to the National Tracing Center, and increase the number of bullet comparisons performed.

Juvenile Firearms Violence Initiative

The Juvenile Firearms Violence Initiative was designed to identify the sources of firearms supplied specifically to juveniles and to target traffickers who acquire and provide guns to juveniles. With the newly developed Project LEAD investigative analyses, the Bureau will begin to target juvenile crime guns to their sources utilizing technological improvements in certain select locations nationwide.

The Achilles Program

The Armed Career Criminal and Comprehensive Crime Control Act of 1984 provided the cornerstone of ATF's national firearms program known as "Achilles". ATF has experienced tremendous success with the enforcement of Title 18 U.S.C. section 924(c) and 924(e), which provide for mandatory minimum sentencing of recidivist criminals and armed narcotics traffickers. The Achilles Program is particularly effective in removing the most violent criminals from our communities, and in many cases, for the remainder of their crime-producing lives. Achilles Task Forces have been established in 20 major U.S. cities. The task forces, comprised of ATF special agents and inspectors, often with assigned State and local officers, work in targeted neighborhoods where the highest incidents of gang-related violence, drug trafficking, homicides, and other violent crimes occur.

From fiscal year 1988 through fiscal year 1995, ATF has produced 17,870 Achilles cases recommending 26,545 defendants for prosecution. During fiscal year 1995,

4,567 Achilles defendants were recommended for prosecution, 1,543 Achilles defendants were indicted, and 617 Achilles defendants were found guilty in Federal court resulting in a cumulative of 6,139 years of incarceration. ATF measures the beneficial impact of the program through the Protecting America study which conducted research and relied on statistical analysis from the National Institute of Justice. This study showed that armed career criminals committed an average of 160 crimes per year at an average cost to the intended victims and the American public of $2,700 per crime. With the average jail sentence received by an armed career criminal being 18 years, this equates to 2,880 crimes at a cost of $7,776,000 to the American public which ATF prevents by incarcerating just one armed career criminal. In fiscal year 1995, 202 armed career criminals were sentenced to periods of incarceration averaging 18 years resulting in the prevention of approximately 573,000 future crimes at a cost of $1.3 billion to the intended victims and the American public. Since the program's inception in fiscal year 1988, 1,842 armed career criminals have been sentenced to periods of incarceration averaging 18 years resulting in the prevention of approximately 5.2 million crimes at a cost of over $12 billion to the intended victims and the American public.

Violent Offender Program

To complement the Achilles Program, and to aid other enforcement officers who may unknowingly confront violent repeat offenders during routine field encounters, the Bureau developed the Violent Offender Program. This program identifies the career criminals (up to 1,000) most likely to be a danger to society. Offenders meeting the program criteria are entered into the National Crime Information Center file for ATF identified violent felons. When a local officer encounters one of these offenders and initiates a criminal history check on the individual, the computer alerts the officer to a potentially dangerous situation. If the individual is armed with a firearm, the officer is instructed to notify ATF immediately for assistance.

When convicted, the criminals generally receive mandatory sentences ranging from 15 years to life in prison, without the possibility of probation or parole.

Public Housing Enforcement Efforts

Initiated as the congressionally funded "Project Uptown" in 1990, this program enabled the residents of many public housing developments to reclaim their homes and communities from drug traffickers and violent criminals. ATF works in partnership with the Department of Housing and Urban Development and other Federal, State, and local agencies to help residents rid their housing developments of drugs and crime.

Firearms Licensing

The Bureau is responsible for enforcing the licensing provisions of the Gun Control Act of 1968 (GCA). This law imposes licensing requirements on firearms manufacturers, importers, collectors, and dealers. In order to ensure that these requirements are met, ATF conducts a thorough inquiry with respect to each applicant.

In the past, the GCA contained less stringent standards for acquiring a firearms license. However, recent changes in law and regulation have resulted in several additions to licensing requirements. ATF has been directed to ensure compliance with present firearms licensing requirements. ATF implemented procedures to require more reliable forms of identification, such as fingerprints to assist in identifying any criminal history. In addition, the November 30, 1993, enactment of the Brady Handgun Violence Prevention Act increased the licensing fee for dealers from $30 to $200 for 3 years and from $30 to $90 for a renewal application.

Licensing standards were further enhanced by the enactment of the Violent Crime Control and Law Enforcement Act of 1994 (the Act). Provisions of the Act require that applicants for a license certify that they will comply with all State and local laws, including zoning requirements. In addition, applicants are required to notify the chief law enforcement officer where the premises are located of their intent to apply for an FFL.

As a result of the recent changes in law, there has been a dramatic decrease in the population of licensed dealers. As of March 13, 1996, there were 169,996 licensees in this Nation, 118,000 fewer than at the beginning of this decade. ATF has fewer than 450 regulatory inspectors to monitor this program and conduct all other field inspections, including the entire range of alcohol, tobacco, and explosives work.

During fiscal year 1995, ATF received 6,186 new firearms license applications and inspected 4,815 on-premise firearms license dealers. A total of 10,822 telephone renewal applications occurred. Compliance inspections, on premise, totalled 13,141 resulting in 8,126 violations being disclosed.

Consistent with our jurisdiction, ATF:

—Assists State and local authorities with any arson investigation, falling under Federal jurisdiction, and having a significant impact on their community, especially when the nature or magnitude of the problem extends beyond the investigative jurisdiction or resource capability of such authorities.

—Provides training to other Federal, State, and local enforcement agencies relative to the detection and investigation of arson over a broad spectrum of arson-oriented topics, with special emphasis on arson-for-profit schemes and other related arson tactics employed by organized crime and white collar criminals.

—Provides training in post-blast bombing investigation to Federal, State, local and foreign law enforcement agencies.

With the additional resources provided through the enacted emergency supplemental appropriation bill for anti-terrorism (Public Law 104–19) in 1995, the Bureau will enhance its efforts in the following arson and explosives-related programs.

Accelerant and Explosives Detection Canine Program

ATF pioneered development and usage of canines to detect accelerants at a suspected arson scene. This research and development by the ATF National Laboratory led to the only scientifically validated canine training methodologies and protocols in the country, if not the world. These canines are made available to State and local police and fire agencies across the country. To date, there are 48 accelerant-detecting canines nationwide which are trained and certified by ATF. Re-certification of the canines is done annually.

Taking the information gained from the ATF Accelerant Detection Canine Program, the scientifically validated training methodologies and protocols were adapted to the explosives detection field. The training protocols are based on the five families of explosives. This allows the canine to detect potentially up to 19,000 explosives compounds. These canines are made available to foreign countries in conjunction with the U.S. Department of State through their Anti-Terrorism Assistance Program.

National Response Team (NRT)

The National Response Team concept utilizes four teams organized geographically to cover the entire United States. These NRT's are the only team of their kind offered by a Federal law enforcement agency. Each team can respond within 24 hours to assist Federal, State and local investigators in overcoming the difficulties inherent in large-scale arson and explosives crime scene investigations. Major incidents can easily overwhelm the resources of local law enforcement or fire personnel, thus creating the need for NRT's.

The teams are composed of trained, veteran special agents having cause and origin expertise, forensic chemists, and explosives technology experts. By working alongside the local ATF agents and law enforcement personnel, the NRT team can reconstruct the scene, identify the cause and origin of the fire, conduct interviews, gather evidence, and complement an investigation. Technical and intelligence advisors, coupled with fully equipped, strategically located response vehicles, make the NRT a vital resource for all law enforcement agencies.

Since 1979, the NRT's have been activated on 304 occasions to incidents that caused 264 deaths, 1,923 injuries, and $1.8 billion in property damage.

Arson and Explosives Cases

Most notable are the contributions ATF made in the Oklahoma City bombing investigation through unique explosives knowledge and expertise at the request of the Oklahoma City Police Department to assist with the investigation of the bombing of the Alfred P. Murrah Federal Building in Oklahoma City. This bombing was the most disastrous act of domestic violence against U.S. citizens in this century.

During fiscal year 1995, 279 explosives-related arrests were made with 157 indictments and 272 convictions. Also, there were 287 arson-related arrests with 171 indictments and 297 convictions. Over $19 million dollars were saved from fraudulent insurance claims.

Explosives Licenses and Inspections

Important as it is to put arsonists and bombers in jail, ATF recognizes the value of averting accidents and keeping explosives from the hands of those who are prohibited from possessing them. ATF's regulatory enforcement provides a system of industry regulation emphasizing a proactive approach to the problem. Similar to the case with firearms, all manufacturers, importers and dealers are required to obtain

a Federal license from ATF to conduct business, and certain users of explosives are required to obtain a Federal permit.

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities, which are secure from theft and located at prescribed distances from inhabited buildings, railways, and roads.

During fiscal year 1995, ATF conducted 955 on-premise explosives application inspections. Three thousand one hundred and forty-five on-site compliance inspections of permit holders were conducted and 1,260 violations were found.

Should additional anti-terrorism legislation be passed, necessitating an explosive taggant study, additional moneys would be required.

PROTECTING THE REVENUE AND THE OPEN MARKETPLACE THROUGH ALCOHOL AND TOBACCO ENFORCEMENT

The goals of the alcohol program are to ensure the collection of alcohol beverage excise taxes, to provide for accurate deposit and accounting for these taxes, to prevent entry into industry by criminals or persons whose business experience or associations pose a risk of tax fraud, and to suppress label fraud, commercial bribery and other unlawful practices in the alcohol beverage marketplace. ATF collected $12.9 billion in alcohol and tobacco excise taxes in fiscal year 1995.

ATF achieves tax compliance by focusing the inspectors on production facilities offering the greatest risk to revenue based on the volume of operations, past history of violations, poor internal controls, or questionable financial condition. In addition, teams of ATF special agents and inspectors perform complex investigations of multi-State criminal violations of the Federal Alcohol Administration Act and sections of the Internal Revenue Code.

The goals of the tobacco program are to ensure the collection of tobacco excise taxes, to qualify applicants for permits to manufacture tobacco products or operate tobacco export warehouses, and to conduct inspections in the tobacco industry. Tobacco inspections verify an applicant's qualification information, check the security of the premises, and ensure tax compliance. ATF special agents investigate trafficking of contraband cigarette products which are in violation of Federal law and sections of the Internal Revenue Code.

Revenue Collection

ATF's mission includes the collection of excise taxes placed on alcohol, tobacco, firearms and ammunition. The tax component to the regulation of these controversial products produces approximately $13 billion in revenue annually.

ATF ensures that the revenue we collect remains sound by protecting it from fraud. There are more than 3,000 manufacturers of alcohol beverages, tobacco products, firearms, and ammunition who pay excise taxes on the commodities they produce. With ATF's efficient post-audit system in place, over 99 percent of the excise taxes owed to the Federal government are paid through ATF in a timely fashion. Generally, the remainder is identified and collected through the audit process.

When technical violations of law or regulations are uncovered by ATF inspectors and technical specialists, the natural inclination is to get the problem fixed, not to prosecute in a criminal court. When circumstances warrant it, however, ATF's regulatory enforcement inspectors forward the information to the criminal enforcement agents, then assist in the prosecution of the criminal case.

Diversion Program

ATF's regulatory oversight protects the Federal government's revenue through compliance inspections of the manufacturers of alcohol beverages, tobacco products, firearms, and ammunition. These inspections include investigating the diversion of export alcohol beverages and cigarettes withdrawn from the manufacturers' inventories without payment of tax.

During recent years, the Canadian government and certain State governments have imposed higher excise taxes on alcohol and tobacco products. The imposition of these taxes created a lucrative black market primarily dominated by white collar and organized crime groups.

ATF discovered that alcohol and tobacco products, originally destined for overseas countries, were being diverted, without payment of taxes, from the United States to Canada. Parts of the shipments were illegally diverted and smuggled into Canada to avoid the payment of the high Canadian excise taxes. Other portions of the shipments were found in the U.S. Had the products remaining in the U.S. gone undetected, the excise tax revenue would have been lost.

In similar circumstances, tax-paid products have been smuggled into Canada as well as from State to State in the U.S. to avoid the payment of the higher-rate State excise taxes in violation of Federal law.

ATF's combined assets of regulatory inspectors, auditors, special agents, intelligence analysts, and tax specialists have enabled ATF to detect current and prevent future erosion of the revenue, particularly in the area of product diversion.

Consumer Protection

An important part of the ATF mission is its focus on protecting the consumer. The authorization for this focus and oversight is based on the Federal Alcohol Administration Act (FAA Act). Passed in 1935, just after the repeal of Prohibition, the FAA Act gives ATF the power to regulate and prevent many of the industry excesses that led to Prohibition in the first place. This law, along with portions of the Internal Revenue Code, requires ATF to regulate the labeling and advertising of malt beverages, wine, and distilled spirits.

ATF prevents organized crime and other criminal elements from entering the alcohol beverage industry through the regulatory process. This includes the prescreening of permit applications and the financial investigation of applicants.

ATF is committed to helping the consumer directly and immediately by monitoring possible health hazards and investigating consumer complaints of tainted or adulterated alcohol beverages. Consumers are also helped indirectly by ATF's regulation of trade practices within the alcohol beverage industry.

Finally, a continuing liaison relating to alcohol beverages is maintained between the United States and its foreign trading partners. ATF is required not only to know the U.S. laws relating to beverage production, marketing, and trade, but also the parallel policies of major foreign nations.

During fiscal year 1995, ATF received 5,439 alcohol permit applications and inspected 1,240 alcohol permit candidates. Inspectors conducted 2,515 compliance inspections resulting in 2,187 violations disclosed. Two hundred and thirty tobacco permits were processed during fiscal year 1995. Eighty-one applicant inspections occurred. Two hundred and eighteen compliance inspections took place resulting in 78 violations.

PARTNERSHIPS

One of ATF's key strategies is to establish formal working relationships with industries, academia and concerned groups. ATF has formed partnerships with a number of these groups, such as: Institute of Makers of Explosives, American Pyrotechnic Association, Fertilizer Institute, Gun Show Promoters, National Association of Auctioneers, and Alcoholic Beverage Industry.

ATF is working with these groups to ensure that regulations are fair, effective and less burdensome to all. In fact, in some instances ATF has obtained the voluntary support of unregulated industries, e.g. Fertilizer Institute, in a joint effort to educate customers concerning public safety.

ATF has also responded to the needs of the firearms industry by streamlining the paperwork needed to apply for a Federal dealer's license. For example, Senator Kerrey facilitated a conference call between ATF and several of his constituents so that we could hear their issues firsthand. Their concerns were compelling and we responded by simplifying the original application from six to two pages, thereby reducing the time needed to complete the forms by more than 50 percent.

Current plans call for working with the University of Maryland and industry to pursue fire research. Such partnerships would maximize ATF's effect on arson and explosives-related crimes through the collection, analysis, and exchange of information and scientific data between industry and the academic and investigative communities.

SCIENCE AND TECHNOLOGY

As part of the Bureau's restructuring, we established the Office of Science and Information Technology to position ATF to take advantage of emerging technology and improve service to the public. As one of our four major strategies, we aim to maximize the effects of technology for ATF and the public.

ATF is currently working on a new information infrastructure that will allow for electronic commerce and rapid exchange of information. It is expected that this technology will improve ATF's accessibility to its customers: State and local law enforcement, regulated industries, Congress, the media, and the American public.

To further our initiatives in the area of technology, the Bureau is requesting additional resources to rebuild ATF's information infrastructure and pilot a new initiative.

NATIONAL LABORATORY

ATF's National Laboratory supports our criminal and regulatory enforcement efforts through the following unique services it provides.

Firearms and Automated Ballistics Examination

The Bureau performs automated ballistic imaging (IBIS) of projectiles and cartridge cases and integrates this information with ATF's Firearms Tracing capability. These analytical services provide direct support to the Achilles Program, the CEASEFIRE Program, and other integrated violence impact strategy initiatives.

Explosives and Fire Debris

Chemist members of National Response Teams investigate bombings and arson by identifying explosives and device components, reconstructing devices for investigative and court purposes, and developing investigative information from trace evidence collected at crime scenes using arson computer-based fire modeling and computer forensic data recovery. The Lab's scientific examinations directly support ATF's Integrated Violence Impact strategy initiatives. ATF Labs have extensive experience in examining this type of evidence and examine hundreds of cases each year.

Beverage Alcohol Analyses

Chemical analysis is performed on alcoholic beverages produced in the United States or imported into the United States. These examinations protect tax revenues and consumers. Examinations verify that products meet legal requirements and reveal whether contaminants such as pesticides or toxic materials are present. New products are evaluated to determine how much tax is to be levied.

Non-beverage Alcohol Program

The ATF Laboratory performs chemical analysis of non-beverage alcohol products to determine taxes owed. Technical evaluation of applications are conducted for new products containing taxable alcohol. These non-beverage alcohol products include foods, flavors, medicines, cosmetics, and industrial solvents. Over 10,000 new product formulas and samples are examined each year.

Tobacco Analysis

Chemical analysis and physical examination of new tobacco products to establish tax classification are also conducted. Examinations of existing products ensure that ATF collects the proper amount of tax revenue each year.

National Laboratory Relocation and Fire Investigation and Research and Education Facility

This new appropriation, of $62 million, is requested to provide full funding for the cost of purchasing land, designing and building a new ATF National Laboratory Center and FIRE Research facility. This proposal would save the Federal Government in excess of $100 million. The construction of these laboratory facilities would allow ATF to support its increased emphasis on firearms and explosives regulation and enforcement, as well as to better perform its regulatory functions related to alcohol and tobacco.

The current National Laboratory Center requires relocation due to a lease expiration. Congress has previously provided initial funding of $1.7 million for ATF to relocate the national laboratory to leased space obtained through the General Services Administration (GSA). However, a comprehensive study has been done to compare the costs of constructing and operating a facility versus renting through GSA. The analysis shows that a one time investment of $65 million will permit the construction of a laboratory, which would include a fire facility. The cost to the government to lease a laboratory and fire facility, would be between $209 million and $229.5 million for a twenty year period (based upon GSA estimates). Additional savings could be realized by offsets from receiving commercial user fees for conducting scientific research for the private sector.

Severe space shortages along with nearly 90 percent of the current facility failing EP and OSHA health and safety standards, require ATF to relocate its current laboratory. The following are examples of these violations:

—There is no safe storage area for the explosive, arson, and pyrotechnic materials. These materials are needed for reference in casework examinations.

—There is no safe storage area for chemicals used routinely in lab analyses. The storage of these chemicals is in fume-hoods that are only marginally functional and bulk chemicals cannot be adequately stored.

—The current facility does not have fire-walls and does not meet current construction standards for a laboratory. A fire anywhere in the building would sweep throughout the entire facility and could not be locally contained.
—Termites infest the ground below the laboratory and periodically swarm into the building and get into lab instruments, halting work for extended periods of time.
—The current exhaust system is inadequate. Particulate lead from weapon test firing poses an occupational health hazard. The firing range is too small for the number of people who use it and the ventilation system does not adequately remove lead-particulate matter generated from the firings. The ballistics tank is located in an area where other examinations are simultaneously performed.

GSA will not permit the current laboratory site to be considered for a lease extension due to the above listed hazards.

The ATF laboratory provides support on both a technical and a scientific basis for fairly collecting revenue on tobacco and alcohol products. The lab is also used for establishing, interpreting and defending regulations and actions taken by ATF regarding these regulations. Additionally, ATF is the technical "watch-dog" over alcohol-containing products imported to this country. This role provides consumer protection by ensuring products actually contain what is stated on the label and test beverage alcohol products for contaminants, i.e. lead and pesticides. The domestic industry is also protected by ensuring that foreign products meet domestic production requirements.

In the criminal enforcement investigative support area, the laboratory examines evidence in criminal investigations (firearms, bombings and arsons) and provides investigative leads. More specifically, laboratory personnel present scientific evidence in criminal prosecutions and provide technical interpretation and guidance in those areas where scientific expertise is needed. Lab personnel assist in crime scene processing and on-site evidence examination. Two major criminal enforcement programs that the lab supports are ballistics imaging (CEASEFIRE/IBIS) and the canine bomb/arson detection program.

In summary, ATF's headquarters laboratory has unique functions including the following:
—ATF has the only Federal law enforcement accredited laboratory facility;
—Firearms and automated ballistics examination;
—Explosives and fire debris evidence;
—Beverage alcohol analyses;
—Non-beverage alcohol program analyses;
—Tobacco Program chemical and physical examinations; and
—Co-location with Explosives Technology office for bomb-scene investigations.

The Fire Investigation Research and Development (FIRE) Center will be co-located with ATF's forensic laboratory. This FIRE facility will provide law enforcement agencies with access to a single facility for scientific research and forensic support into the causes and characteristics of uncontrolled structure fires.

Currently, there is no fire research facility that is solely dedicated to support criminal enforcement needs. As the Federal agency tasked with investigating crimes involving the suspicion of arson, ATF has been forced to utilize the limited structural fire work done by existing research institutions. Current government fire laboratories have not engaged in fire research directed at supporting fire investigation to any great extent and many are unwilling to engage their staff in issues involving litigation or criminal prosecution. Private fire laboratories support fire investigation research for commercial clients, thus the research is proprietary and unavailable to the public.

Research is required to help investigators understand what physical factors and information is needed to explain arson fire scenarios to juries, and to provide technical data and evidence in the pursuit of prosecutions.

ATF works very closely with other government agencies, as well as private industry, on fire training and investigations. ATF has worked with the U.S. Fire Academy (USFA) and the National Fire Academy (NFA) on issues relating to fire investigation and arson enforcement. ATF special agents regularly participate in developing and instructing fire investigation courses that are taught at the NFA. The USFA and the Bureau of Justice Assistance (BJA) are currently funding courses in arson-for-profit, advanced fire origin and cause, and arson for prosecutors, each of which are taught by ATF. This is an indication of the recognition of ATF's leadership role in arson training. Construction of a laboratory, which includes a fire facility is necessary to further the Bureau's mission as well as its strategy of reducing violence through forming partnerships with other agencies and industry.

TRAINING

ATF's training priority has been elevated to a new Training and Professional Development Directorate to improve the performance of employees and managers, measure their achievements, and assist in their professional development. ATF realizes that developing managers and leaders is essential to our future success. Programs are being developed to assess managerial potential and provide the skills needed to lead ATF's complex and multidimensional functions. Training was a key factor in our lessons learned from Waco which included development of command and control training, crisis management training, and emergency medical technician training to selected personnel.

ATF National Academy

The ATF National Academy, in Glynco, Georgia, provides highly professional training programs to new special agents, inspectors, and auditors, and advanced programs. The Academy also provides advanced training for State, local and foreign officers.

International Training Programs

In partnership with the Department of State, ATF has recently begun training law enforcement agencies of the former Eastern Bloc in modern explosives postblast investigations, firearms trafficking, and organized crime investigative techniques. Training is also being given in alcohol and tobacco industry regulation and taxation.

ATF is an active participant and provides faculty members for the International Law Enforcement Academy in Budapest, Hungary. The ATF faculty provides instruction to mid-level law enforcement managers from Central and Eastern European countries.

G.R.E.A.T. Program

The Gang Resistance Education and Training (G.R.E.A.T.) program is administered through this new directorate. Since the program's inception in 1992 through January 1996, ATF has certified over 1,700 State and local police officers from more than 700 law enforcement agencies in a prevention program aimed at reducing violence and gang activity. As part of this program, we are requesting $7,200,000 for grants to State and local law enforcement communities and $3,000,000 and 16 FTE's to fund the training of law enforcement officers, and to focus on monitoring, evaluating, and maintaining a Federal standard for all training.

G.R.E.A.T. is a structured, school-based program implemented in areas where gang activity either exists or is emerging. The curriculum is taught to the seventh and eighth grade levels by certified uniformed police officers and ATF special agents. A third and fourth grade curriculum is also available. An integral part of the G.R.E.A.T. Program is an optional follow-up summer camp, with classroom instruction and extracurricular activities that reinforce the 9 week school program through social and self-esteem building opportunities.

The Police Commissioner of the Philadelphia Police Department states that the G.R.E.A.T. program in Philadelphia, with its interactive approach to instruction, has allowed over 6,500 students, in 24 schools, the opportunity to become actively involved in their own futures. With assistance from a trained officer, the students are provided a forum to enhance their social skills, while reinforcing basic survival and problem solving techniques that will help them create a better home, school, and community environment.

The program has been very well received in our schools. Administrative personnel, principals, teachers, parents, and even students have lauded the efforts of our officers and the G.R.E.A.T. Program.

A five year study by the University of Nebraska has been underway beginning two years ago. Preliminary analyses indicate that students completing G.R.E.A.T. reported:

—Lower levels of: delinquency, impulsive behavior, risk taking behavior, and approval of fighting.

—Higher levels of: self-esteem, parental monitoring, parental attachment, commitment to positive peers, anti-gang attitudes, perceived educational opportunities, and positive school environment.

—No differences on: attitudes to police, cultural identity, feelings of guilt, approval of lying and stealing, and commitment to negative peers.

Management Assessment Center

Central to the effective operation of any organization is the establishment of a cadre of well trained and appropriately qualified managers. The Management Assessment Center would provide the means by which candidates for managerial posi-

tions within the Bureau would undergo a formal evaluation process to identify and develop those personnel who best demonstrate the qualities and characteristics that define a superior manager. The process would utilize a number of valid measurements, test and evaluation criteria to effectively distinguish managerial talent within the Bureau.

Arson-related and Explosives Training

Any State or local law enforcement agency can access each of the arson programs listed below through local ATF offices. Student selection for the various training programs are made based upon recommendations by the special agents in charge of each ATF field division. The training programs that ATF offers are:

1. Advanced Arson-for-Profit Investigations for State and Local Officers.
2. Advanced Cause and Origin/Court Techniques.
3. Arson-for-Profit for Prosecutors.
4. Advanced Arson Investigative Techniques for the Insurance Industry.

ATF has conducted numerous explosives postblast investigation schools for State and local law enforcement officers. Plans are underway to conduct Olympics support training for National Response Team (NRT) members this Spring.

As part of the overall funding provided for in the no-year supplemental appropriation bill (Public Law 104–19), the Bureau plans to provide all NRT members with a one week training class. These exercises will enhance the team's effectiveness and allow team members to become familiar with new equipment, including new vehicles, that ATF is procuring. Additional hazardous materials training will also be provided to all NRT members.

STRATEGIC PLANNING

The Strategic Planning Office was established to guide the Bureau into the future, by focusing on every aspect of our work—both the work done now and what is expected to be done tomorrow.

ATF has published an initial phase of its Strategic Plan, marking the beginning of an integrated strategic planning process to clearly identify ATF's vision, mission, strategies, and guiding principles. The process will focus ATF resources on those areas that are critical to the Bureau, enhance resource management, measure results, and facilitate adjustment to change.

The strategic planning process is being integrated with the annual budget process. This collaboration directly ties the Bureau's requests for resources and how it measures its workload and output, to the requirements of the Government Performance and Review Act (GPRA), the CFO Act, the President's Reinventing Government initiatives, and the Workforce Restructuring Act.

EQUAL EMPLOYMENT OPPORTUNITY

Three major cross-cutting issues dealing with training, recruitment, and supervisory accountability are presently being addressed by focus groups and members of the Executive Staff.

I am proud of the significant progress we have made in the area of career advancement for women and minorities. For example, in 1987, women held only 5.4 percent of GS 13–15 positions in ATF; in 1995, that figure was 15.6 percent. In 1987, minorities held 7.4 percent of GS 13–15 positions; in 1995 that figure was 15 percent. Gains were also made in SES positions. In 1987, there were no women in SES positions; in 1995, women represented 15.4 percent of the SES cadre. In 1987, minorities held 7.3 percent of SES positions; in 1995, that figure had risen to 10 percent.

We have also increased the number of female and minority special agents in our work force. In 1982, the Bureau employed only 23 female special agents; by 1988, that number had risen to 116; and by 1995, ATF had a total of 220 female special agents, or 11 percent of the total, up from 7.9 percent in 1988 and 1.8 percent in 1982. Similarly, we have steadily increased the number of minority special agents in recent years. In 1982, ATF employed only 63 minority special agents; in 1988 that number increased to 201; and by 1995, we had a total of 359 minority special agents, or 19.6 percent, up from 5 percent in 1982 and 14 percent in 1988.

Alternative Dispute Resolution (ADR) Program

A new initiative we are about to implement is a program of early intervention in the EEO process to try to resolve EEO complaints before they reach the formal stage. The program offers employees the option of resolving their concerns with the aid of neutral mediators who can assist in defining the issues and fashioning mutually agreeable resolutions. The program is completely voluntary and the mediator cannot impose a decision on the parties. If no resolution is reached, the complainant

has the option of having his/her complaint processed through the standard EEO procedures. This program has the potential to improve morale and significantly reduce the time and costs associated with traditional EEO procedures.

PROFESSIONAL REVIEW BOARD AND ATF/NTEU PARTNERSHIP

Illustrating the commitment to ensuring a fair workplace for all employees, ATF has established both a Professional Review Board (PRB) and an ATF/NTEU Partnership Council.

The PRB addresses issues of timeliness and consistency in disciplinary actions for all non-bargaining unit employees. Working with the Employee and Labor Relations Branch and Chief Counsel, the PRB (composed of senior headquarters managers) determines and issues proposals for disciplinary and adverse actions resulting from Office of Inspection investigations.

The ATF/NTEU Partnership Council, meeting on a quarterly basis, provides a forum to address and resolve issues of mutual concern between ATF management and the National Treasury Employees Union.

OMBUDSMAN PROGRAM

The Ombudsman provides an avenue through which employees may seek answers to questions involving work-related activities, ATF programs, and even rumors. The Ombudsman is designed to be a neutral party (answerable only to the Director) who may serve as a counselor, a go-between, a mediator, or as an informal factfinder to provide an open atmosphere for improving communication within the Bureau. The office establishes an environment in which questions may be raised without fear of reprisals.

Under a recent agreement reached through the Partnership Council, the Ombudsman program has been made available to bargaining unit employees. The Ombudsman will now work jointly with the union to attempt to resolve issues and concerns raised by those employees.

In addition, the Office of the Ombudsman will soon expand its area of jurisdiction and begin the process of the "Problem Resolution Pilot Program." This program will focus on responding effectively to external complaints, particularly in our paper processing area. The pilot will include the Firearms and Explosives Licensing Center and the Office of Technical Services in Cincinnati.

INSPECTION ACTIVITIES

Commencing October 1, 1994, the Office of Inspection acquired the inspection function for the entire Bureau and the shooting review programs from the Office of Enforcement as part of the Bureau's restructuring.

During fiscal year 1995, 13 full-scale inspections were conducted which involved reviews of 119 separate operating units in various locations throughout the country. Each office was reviewed by the inspection team for adherence to established administrative procedures and operational effectiveness and efficiency. Every employee in each operating unit was interviewed with respect to morale, job satisfaction and any other existing issues. Comprehensive written reports which contained recommendations for correcting instances of non-compliance with policies, procedures, and suggestions for improvement in efficiency were issued to each applicable manager. Twelve shooting reviews were conducted and subsequently reviewed by a Bureau panel from several Directorates to assess safety and other relevant issues.

These accomplishments were in conjunction with the Bureau's integrity program which investigates all allegations involving alleged or suspected misconduct or illegal acts on the part of Bureau employees. Presentations to employees concerning integrity awareness and ethics in government were continued during fiscal year 1995.

As stated earlier, this office is also working closely and cooperatively with the GAO on a survey which will be issued shortly.

MANAGEMENT AND ADMINISTRATIVE EFFORTS

Several other administrative and management initiatives are noteworthy. They are in the areas of security, field structure, accountability, and customer service plans.

As a result of the Oklahoma bombing, the Bureau was provided funding to enhance physical security, both in the field and at Bureau Headquarters. Immediate steps were taken to safeguard employees, and plans are underway to relocate Bureau Headquarters so that we may have more control over our security. In addition, a number of security enhancements have been scheduled for our field installations

following a security needs survey. For example, we are placing X-ray machines in facilities that receive a high volume of mail.

Another important initiative is the proposed realignment of ATF's field structure. When fully implemented in 5 years, the realignment will reduce the number of criminal enforcement field divisions from 24 to 17, and realign the existing 5 regulatory districts to better align staffing levels according to crime statistics. The number of street agents will not be reduced. Coupled with an improved staffing/span of control model, there will be: (a) salary savings in terms of fewer supervisors and (b) significant reductions in rents as a result of space reductions. These savings will allow the Bureau to address sorely needed infrastructure improvements, which will further increase productivity.

In the area of accountability, I am pleased to report that we are in the process of completing our first annual comprehensive program and financial audit, performed by the Treasury Office of Inspector General (OIG), as required under the Chief Financial Officers Act. Also, in accordance with Executive Order 12862, Setting Customer Service Plans, we have published five customer service plans in the following areas:

—firearms tracing;
—alcohol beverage label approval;
—nonbeverage drawback approval formulas;
—approval of specially denatured alcohol formulas; and
—approval of the importation of specific firearms, explosives, and ammunition.

In fiscal year 1996, we plan to determine whether additional mission-related services will be targeted for developing customer service plans. All of these efforts have assisted us in ensuring that the Bureau becomes a more customer-focused organization, which is directly in line with the guiding principles of our strategic plan.

Further, all SES performance contracts now include requirements for team work and for implementing the strategic planning process associated with the ATF Strategic Plan. Wide-ranging issues are included, from crisis management to succession planning to implementing our guiding principles.

This completes my statement. I will be happy to answer any questions you may have and I would like to express my sincere appreciation of the support that your Committee has provided us. I look forward to working with your Committee to further our mutual goals of safeguarding the economy and reducing violent crime.

FINANCIAL CRIMES ENFORCEMENT NETWORK

STATEMENT OF STANLEY E. MORRIS, DIRECTOR

Senator SHELBY. Director Morris.

Mr. MORRIS. Thank you, Mr. Chairman. I got a phone call yesterday afternoon from my new boss, Assistant Secretary Johnson, who told me to keep my statement short and sweet. I promised him I would keep it short.

Financial Crimes Enforcement Network [FinCEN] is essentially a high-technology agency that provides intelligence analysis and regulatory support to the colleagues at this table and our law enforcement colleagues around the United States. There are really three areas I would like to touch on very briefly.

First, we support investigations, the financial investigations of many of the agencies here, other Federal agencies, State, local, and increasingly international agencies. This year we will provide about 8,000 analyses in support of those cases, covering perhaps as many as 40,000 subjects, using high-technology computers and artificial intelligence and many other skills that we try to bring to bear in supporting the complex investigations that the Government agencies have to undertake.

A second area of responsibility is we try to use our regulatory tools in creative ways to also support our law enforcement agencies. We are very much aware of the concerns of the regulatory burdens, and we have been trying to adjust the regulatory schemes in ways that provide better analysis, better information, better records, while at the same time reducing the burdens on those who are subject to the Bank Secrecy Act, which is the regulatory scheme under which we carry out these responsibilities on behalf of the Department of the Treasury.

My statement goes into some length regarding one particularly novel approach where we have taken over 2 million forms that were being filed with law enforcement agencies around the country in kind of a helter-skelter fashion, and turned it into a seamless suspicious activity reporting system. This provides us a major new data base in terms of the reports on criminal activity that banks make regarding both crimes against the bank or criminals using financial services. That new data base is beginning to be built already, and although the program is only 2 weeks old we have received over 500 such suspicious reports, The new system will provide quick access to the agencies represented at this table. We think this will be a major contribution in the area of financial fraud detection and enforcement.

Finally, the third area I would like to address is the need to look ahead. It is very possible, Mr. Chairman, that we will be approaching a cashless society in the 21st century. Uses of the internet, stored value cards, and the like, create new challenges for all of law enforcement. Our initiative in this budget is for $1 million and

five FTE's essentially to try to stay ahead of what we refer to as cyber payments, new payment services that I know you have found in your experience with both the intelligence community and the banking community are causing much concern and interest. Great opportunities also create great risk and new opportunities for criminals to exploit them. We are working with the industry and with our law enforcement colleagues to try to make sure that these new payment service systems indeed are developed and serving the consumer, but not the organized crime groups.

PREPARED STATEMENT

So in sum, Mr. Chairman, we appreciate very much your support in the past, and look forward to working with you in the days and years ahead.

[The statement follows:]

PREPARED STATEMENT OF STANLEY E. MORRIS

Mr. Chairman and members of the Subcommittee, thank you for giving us the opportunity to discuss the mission and fiscal year 1997 budget request of the Financial Crimes Enforcement Network (FinCEN). In discussing the budget request, I will be focusing on how FinCEN is supporting law enforcement through technology. Providing investigative support and analysis to law enforcement agencies goes beyond traditional methods. It requires state-of-the-art technology to address the ever changing world of money laundering and other financial crimes.

FinCEN is one of the primary organizations that establishes, oversees, and implements Treasury's policies to prevent and detect money laundering. It provides analytical case support to many federal agencies, including the U.S. Secret Service, IRS's Criminal Investigations Division, U.S. Customs Service, the Postal Service, FBI, and the Drug Enforcement Administration which are significant investigators in the area of financial crime. FinCEN also administers the Bank Secrecy Act, which is a key component of Treasury's efforts to fight money laundering. In addition, FinCEN is becoming a leader in international efforts to build effective counter money laundering policies and cooperation.

FinCEN's appropriation request for fiscal year 1997 totals $23,137,000 and 184 FTE's. This is a net increase of $939,000 over the fiscal year 1996 funding level of $22,198,000. This request includes $1,000,000 to expand our knowledge of emerging technologies associated with cyberpayment systems and the vulnerabilities they hold for money laundering and other financial crimes.

Given FinCEN's mission, the emphasis on technology in our budget request is not surprising. FinCEN focuses on the use of information to more effectively fight money laundering. In today's world, using information means using technology—understanding the efficiencies it can create as well as the threats its use can pose in the hands of criminals. As criminals become more adept at using technology to further their schemes, so must law enforcement use technology to beat them at their game—and sometimes to beat them before the game even begins.

Last year, FinCEN worked with more than 150 federal, state, and local agencies, providing almost 8,000 analytical case reports involving almost 30,000 subjects. Using advanced technology and a variety of data sources, FinCEN links together various elements of the crime, helping federal, state and local law enforcement find the missing pieces to the criminal puzzle. It would be impossible to provide that amount of support without, first, the expertise of FinCEN's analysts, but also the state of the art computers and databases that FinCEN operates. In fact, many times the investigations we support go beyond financial cases and focus on many other kinds of crimes because our databases offer investigators clues that might not be found elsewhere.

Our compilation of databases provides one of the largest repositories of information available to law enforcement in the country. Our technology and expertise draws representatives from more than 20 separate agencies, from within and outside of Treasury, to FinCEN in order have direct access to information. This results in more than 40 agents and analysts being detailed to FinCEN on a full time basis. This representation allows us to draw on their expertise, and then to build that expertise into our strategies as well.

Today, I would like to give you a brief look at two areas where FinCEN is using technologies which go beyond the traditional methods of case analysis. Although this case support is at the heart of our mission, we must look over the horizon if we are to have an effect on criminal organizations. The criminals of today are always searching for new opportunities and so must we. And that's what our budget initiative is all about. First, I'd like to discuss how FinCEN is using technology in a new information system for suspicious activity reporting. Second, I will describe our efforts to bring front-line agencies together to consider the impact of developments in cyberpayments on financial crime.

THE SUSPICIOUS ACTIVITY REPORTING SYSTEM

This month we "turned the switch" to implement the new national Suspicious Activity Reporting System—called SARS—merging and revolutionizing two older reporting systems that had been in place for over a decade.

The activity reported can include bank fraud, misdeeds by bank officials, tax fraud, check kiting, credit card fraud, embezzlement or money laundering. Under the old system, banks filed more than two million pieces of paper, usually through the mail, in order to report suspicious activity occurring at or through banks; separate filings were made with numerous law enforcement and regulatory agencies, and no uniform mechanism for tracking the referrals (or even knowing that they had been made at each agency) existed.

The new system will be administered by FinCEN in a unique partnership with the IRS Detroit Computing Center, federal law enforcement and the five bank regulatory agencies. In the context of technology and keeping one step ahead of criminals, the Suspicious Activity Reporting System will significantly improve our ability to detect, analyze and understand criminal financial activity, to assure that information about the activity gets to the proper law enforcement and regulatory authorities in as close to real time as possible, and to gain a broader, strategic understanding of the implications, both national and global, of attempts by international organized crime to subvert our banking systems.

Simply put, the Suspicious Activity Reporting System helps law enforcement investigate criminal activity by consolidating information and making it available electronically to all interested agencies. The new system exemplifies interagency cooperation and the importance of working with industries who interact with law enforcement.

Under the new system, banks will now be required to complete only *one* form and send it—on magnetic tape if they would like, or otherwise use a computer shell to generate a paper form—to *one* agency—FinCEN. The information will be input into a single database by the Internal Revenue Service's Detroit Computing Center on behalf of FinCEN and the regulatory agencies.

This single centralized system will allow more than a dozen federal law enforcement and regulatory agencies to use the information in these reports simultaneously. The single filing point for banks will permit the rapid dissemination of reports to appropriate law enforcement agencies, provide for more comprehensive analyses of these reports, and result in better information about trends and patterns which is vital to Treasury enforcement in our efforts to address money laundering.

Here's an example of how the system will help investigators:

A criminal organization is operating a bank fraud scheme along the eastern seacoast. Under the old system, banks in various states would begin to report the instances of fraud to their various supervisory agencies, local U.S. Attorneys, local FBI, and Secret Service offices. There was no systematic way, however, for a Secret Service office in Miami to know that a similar fraud had been reported recently by banks in Philadelphia and Baltimore to the FBI. Under the new system, investigators will be able to check the centralized data base for similar or related reports, and immediately correlate related information and coordinate investigative efforts with other offices. In addition, whereas the criminal organization may carefully craft individual acts of fraud below the threshold for prosecution by a particular U.S. Attorney's office, the ability to coordinate investigations and aggregate a series of related, small scale cases might result in the prosecution of a criminal organization that would otherwise go unchallenged.

SARS also eliminates confusion about jurisdictional questions by making all information available to all potential investigators. Thus, for example, both the FBI and the Secret Service will now receive all information relating to suspected bank fraud. And the Customs Service can find a trade fraud violation even though a bank official may have thought the suspected crime was check kiting or bank fraud.

The banking community is pleased as well. SARS significantly cuts costs for bankers as well as burdensome paperwork. According to the banking industry, the new system reduces the amount of paper filed by 80 percent.

The key here is technology—creating a single system not only makes information transmission possible, but also makes information analysis more accurate and timely. The data system will automatically classify and generate reports by a number of variables, to give all of us the first accurate nationwide picture of reported suspected bank crime as a byproduct of getting information to investigators.

CYBERPAYMENT SYSTEM DEVELOPMENT

The SARS is technology at its best. There is new technology on the horizon—in fact, some of it has already arrived—which may show us both the best and the worst aspects of technology. New cyberpayment systems are coming on line—Smart cards and banking on the Internet, and these advanced technologies may create vast opportunities for consumers—and for criminals.

Most of these systems are designed by honest entrepreneurs who want to give business people and consumers extraordinary new efficiencies. But these same efficiencies could, at least in theory, create opportunities for serious exploitation by money launderers.

Smart card transactions and international payments transacted over the vast Internet system could be immediate, potentially anonymous, effected in multiple currencies, and conducted entirely outside of the traditional funds transfer channels.

Is that necessarily bad? Not at all. In fact, far from it. A U.S. retailer, let's say a department store, could accept smart cards for purchases. As the store's revenues increase, it could transfer the value of its revenues to a smart card or download the value into a computer. This value could in turn be transferred through the Internet to financial institutions or people around the world to pay invoices, order materials, or pay suppliers—in all cases stimulating commerce, making trade less expensive, and providing benefits to consumers.

The same systems can offer consumers other benefits. They can reduce the hazards and inconvenience of carrying cash, and they can provide a significant degree of protection, via smart card technology, for those who do not have bank accounts. They can foster electronic commerce, and they can reduce the costs of processing cash by retailers and the risks of robbery for merchants in all areas.

But, as I have pointed out, the same efficiencies could, at least in theory, create opportunities for serious exploitation by money launderers and other financial criminals. Suppose my Internet user is a narcotics trafficker or an agent for any gang of sophisticated criminals. Consider the invoices *the trafficker* might pay, the supplies *he* might order and the transactions *he* might accomplish if, for instance, he could download an unlimited amount of cash from a smart card to a computer, and then transmit those funds to other smart cards in locations around the world—all anonymously, all without an audit trail, all in a matter of seconds, and all without the need to resort to a traditional financial institution.

History has shown us that as we invent new technologies, criminals are waiting on the periphery to exploit them—credit cards produce credit card fraud; computers create computer hacking; and automatic teller machines produce unique opportunities for theft. In the same way, the possibility of virtually untraceable financial dealings, if it came to pass, would create new, but this time, perhaps unparalleled problems for law enforcement. Those of us who have fought so hard to end bank secrecy as a convenient excuse around which criminals can cluster will have won little if we now turn to a world in which financial institutions can easily be bypassed via the Internet or use of the telephone lines.

That leads to an important point about money laundering and related financial crimes. They all involve taking acts that are *themselves*, in isolation, not only legal, but commonplace—opening bank accounts, wiring funds, and exchanging currencies in international trade. Given that basic fact, we have few ways now to separate the malefactors from the businessmen. The new technologies will give us even fewer ways, unless we work with their developers.

How should we do so? First, we will need partnerships with these new industries. We have begun.

Last September, FinCEN hosted a day-long Colloquium at the New York University School of Law to discuss the implications of these technologies. Law enforcement, bank regulators, credit card companies, CEO's from the United States and Europe, as well as academics and prosecutors attended and shared their views on these issues. Without thoughtful and balanced attention to law enforcement concerns now—before criminals begin to exploit the new technology—the prospects by organized crime, money launderers, and other financial criminals could be too great.

Secretary Rubin has asked Eugene Ludwig, Comptroller of the Currency, to coordinate Treasury's efforts in this area, and the Customs Service, IRS, Secret Service, and FinCEN are supporting this endeavor. It is an area which we will watch carefully. Indeed, FinCEN has several studies underway. But, much more needs to be done.

The development of cyberpayment systems may seem far afield from my descriptions of the Suspicious Activity Reports System and FinCEN's case support through database research. But I don't think it is. FinCEN has been striving to illustrate the importance of productive technology in law enforcement. In this area, our concern is to highlight the need to understand the new technology, which raises core investigative issues for the Secret Service, in combating computer fraud and bank fraud, for the Customs Service in fighting smuggling, for ATF in tracing funds to weapons and explosives, and, of course, to IRS CID in fighting money laundering and tax evasion. Our efforts related to cyberpayments thus is designed to build a knowledge base throughout Treasury enforcement—in a different but equally crucial way than our SAR and case analysis build Treasury-wide knowledge bases. Again, we must look beyond the horizon if we are to beat criminals at their game. This effort to look forward is reflected in our budget request for fiscal year 1997. We can not afford to lag behind in our effort to understand this new technology. It is already revolutionizing the financial industry and carries with it enormous implications for law enforcement. We must make every effort now to keep pace with cyberpayment developments

CONCLUSION

The computer room and the squad room once seemed worlds apart. Today, they're not. We must use every weapon in our arsenal to ensure the best offense and defense against financial criminals. Technology is one such weapon.

Treasury enforcement agencies hold a unique position in federal law enforcement. In the case of FinCEN, among other skills, our use of technology gives us an edge against the schemes and wrongdoing of money launderers and others who would try to use it to their advantage. It gives us the chance to look over the horizon, hopefully before criminals discover the opportunities which lie there. We appreciate this subcommittee's support for our programs and this opportunity to discuss our request for fiscal year 1997.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF CHARLES F. RINKEVICH, DIRECTOR

Senator SHELBY. Director Rinkevich.

Mr. RINKEVICH. Thank you, Mr. Chairman, and I echo my colleagues compliments to you and the staff for the support over the years, and stand ready to continue that very positive relationship.

I also want to thank you for recognizing the delegation from our home community. It is quite coincidental that they are here. I did not bring my own cheering section. They are here for their annual fly-in, and the center receives a great deal of support from our community in Brunswick and Glynn County, and we appreciate their being here.

APPROPRIATION REQUEST

My long statement has also been submitted for the record, so let me very briefly summarize the appropriation request before you today. We are asking for a total of $64,921,000, and coupled with the amount of money that would be received from our agencies for services they must reimburse us, which is $21,889,000, the center's budget for 1997 as proposed is $86,810,000.

BUDGET JUSTIFICATION

To give you a sense of where that money is going, we are facing, once again, an unprecedented workload increase for training at the Federal Law Enforcement Training Center. Our workload increase is not only at our Glynco facility, but also at our Artesia facility in New Mexico. Because of this increase, we have had to go to the Charleston Navy Base, which has recently closed, to open that facility for additional Immigration Service training. The increase is a result of the increases in personnel that the Congress and the administration have provided to the Immigration Service, particularly the Border Patrol. The increase is also due to additional funding received by agencies we train, as a result of the tragedy in Oklahoma and the increased attention to protecting Government facilities and personnel.

WORKLOAD GROWTH

To give you a sense of our workload growth, in 1995 we graduated 21,800 students. In this current fiscal year we will look at 29,500 students. This growth change reflects the enormous increase that I am talking about. That will continue until fiscal year 1997, the year of this budget. That is what we anticipate.

INITIATIVES SUMMARY

There are three initiatives in the budget that I will briefly summarize for you. One of those is environmental compliance, a total

of $2 million that will allow the center to deal with a variety of environmental issues at all of our facilities. As you know, we are a former naval air station, and we inherited some environmental problems plus some of our own making. We are also asking for less than one-half of a million dollars for increased support for new buildings that have come on line as a result of master plan construction activities to expand our Glynco and Artesia facilities. Perhaps the most exciting initiative has to do with distance learning, and computer-based training. Slightly more than $3 million in this budget will allow us to create a fiber-optic backbone at Glynco and get into in a more aggressive distance learning through satellite television and computer-based training.

PREPARED STATEMENT

That is a summary of our request before you today, Mr. Chairman. Again, I thank you for the opportunity to speak with you about it. Thank you.

[The statement follows:]

PREPARED STATEMENT OF CHARLES F. RINKEVICH

Mr. Chairman and Members of the Subcommittee, I am especially pleased to be here today to report on the current operations and performance of the FLETC and to support our appropriation request for fiscal year 1997. Originally established by a Memorandum of Understanding in 1970, the Center has seen tremendous growth over the last 26 years. The Administration and Congress can be proud of the quality of the training being provided at the FLETC and the savings realized through consolidated training.

Today, I am prepared to discuss a number of our initiatives outlined in the President's fiscal year 1997 budget. The Center's fiscal year 1997 request is for a Salaries & Expenses (S&E) appropriation of $52,687,000; an increase of $4,603,000 and 13 FTE from the fiscal year 1996 level. The S&E request includes 9 FTE and $2,169,000 in Crime Bill funding. Our request for ACI&RE is $12,234,000; an increase of $2,571,000 from the fiscal year 1996 level. Crime Bill funding in the amount of $2,350,000 is included in the ACI&RE request. The total funding requested will support 4 important initiatives: Environmental Compliance ($2,060,000 and 1 FTE), New Training Building Support ($465,000 and 2 FTE), Distance Learning/Computer Based Training ($800,000 and 2 FTE), and Fiber Optics ($2,350,000). The Environmental Compliance and New Training Building Support initiatives are split between the S&E and ACI&RE accounts because of the nature of the initiatives. A breakout of the funding between the accounts for those initiatives is as follows:

—Environmental Compliance—S&E, $710,000 and 1 FTE; ACI&RE, $1,350,000; and

—New Training Building Support—S&E, $355,000 and 2 FTE; ACI&RE, $110,000.

The S&E and ACI&RE request, including the Crime Bill, represents an increase of $7,174,000 over the fiscal year 1996 level. Coupled with $21,889,000 in funds to be reimbursed to us for training related services, our total budget for fiscal year 1997 is $86,810,000.

Before providing this Committee with an overview of Center operations, I would like to take a moment and address progress being made in complying with the requirements of the Government Performance and Results Act (GPRA). As you know, the GPRA requires agencies to publish strategic plans covering at least five years, publish annual performance plans which include measurable goals, and after the year is completed, to report on actual performance.

The Center and the Treasury Department have fully embraced GPRA and have begun implementing it ahead of schedule. The FLETC began the process of drafting its strategic plan in fiscal year 1994. We involved numerous levels of the FLETC and participating agency staff in the planning process and a draft of the plan was completed and approved by the Center's Board of Directors in July 1995.

As required by the GPRA, the Center is now in the process of coordinating this plan with the Office of Management and Budget and the Congress. A copy of the

plan was recently provided to the staff of this Committee. We feel that the broad based approach followed by the FLETC in developing its strategic plan has resulted in a realistic and achievable plan which reflects organizational goals that will garner strong support from both the FLETC and participating agency staffs.

Performance plans required by GPRA are now an integral part of the budget documents sent to you each year. In our fiscal year 1996 budget request last year, we incorporated measures of program performance in addition to the traditional output-oriented workload measures. We plan to continue our efforts to identify, develop and/or improve on the performance measures being used for our programs. We believe we are making progress in developing meaningful and quantifiable measures for our programs and welcome your feedback in this area.

The Center strongly supports this long-term system of planning, the setting of annual targets and reporting on annual performance. We believe it will result in bureau programs being managed more efficiently and effectively and will help everyone involved in the appropriations process make more informed budget decisions.

OVERVIEW OF OPERATIONS

Now Mr. Chairman, if I may, I would like to proceed by providing the Committee with an overview of the operations of the Federal Law Enforcement Training Center. As you know, the Center's mission is to conduct basic and advanced training for the majority of the Federal Government's law enforcement personnel. We also provide training for state, local and international law enforcement personnel in specialized areas and support the training provided by our participating agencies that is specific to their needs. Currently, 72 Federal agencies participate in more than 200 different programs at the Center. The U.S. Postal Service became the 72d participating agency during fiscal year 1995, when the Center's Board of Directors approved their request to reactivate their participating agency status with us. We began training the Postal Police immediately thereafter.

There are entry level programs in basic law enforcement for police officers and criminal investigators along with advanced training programs in areas such as marine law enforcement, anti-terrorism, financial and computer fraud, and white-collar crime. Our training is generally conducted at either the main training center in Glynco, Georgia, or our satellite training center in Artesia, New Mexico. Additionally, some of our advanced training, particularly that for state, local and international law enforcement, is exported to regional sites to make it cost efficient for our customers.

WORKLOAD

The Center is faced with an unprecedented increase in its training workload beginning in fiscal year 1996 and continuing through fiscal year 1999. The majority of the increase in training workload is the result of the fiscal year 1995 initiative by the Administration and Congress to increase the effectiveness of the Immigration and Naturalization Service (INS) in controlling our borders. A significant increase in the number of INS and United States Border Patrol (USBP) law enforcement personnel has been authorized.

However, other participating agencies are also projecting increases in training requirements, although not on the same scale as that of the INS. For example, the Bureau of Prisons is projecting an increase in its training requirements as the construction of new prisons is completed and scheduled to come on line. The Secret Service's Uniformed Division has requested an additional 100 training slots in fiscal year 1996 in response to security concerns arising from the recently completed White House Security Review. The General Services Administration's Federal Protective Service (FPS) originally requested five training slots in fiscal year 1996. As a result of the tragic bombing of the Alfred P. Murrah Building, they have now requested that we provide training for 145 FPS officers and are projecting the need for an additional 400 to 500 training slots in fiscal year 1997. The Federal Bureau of Investigation requested 50 additional slots in fiscal year 1996 to enhance their security force. The Department of Health and Human Services' Office of the Inspector General has also increased their training request from six to 120 slots in fiscal year 1996. We expect other agencies will also follow suit during the year.

During fiscal year 1995 the Center graduated 21,810 students, representing 77,658 student-weeks of training. This total included 16,887 students who were trained at Glynco, Georgia; 3,639 students trained at our satellite centers and 1,284 in export programs conducted at various locations throughout the United States. The total includes 7,998 basic students; 11,295 advanced students; and 2,517 state and local students for an average resident student population (ARSP) of 1,493.

Based on updated Spring 1995 participating organization projections, the Center expects that during fiscal year 1996 a total of 29,512 students will be trained, representing 130,054 student-weeks of training. This total will include 27,994 students to be trained at Glynco; 1,130 students at Artesia; and 388 students in export programs. The total includes 14,044 basic students; 12,801 advanced students; and 2,667 state and local students for an ARSP of 2,501.

The updated Spring 1995 projections from our participating agencies indicate that during fiscal year 1997, we will train a total of 29,549 students representing 110,049 student-weeks of training. This total includes 26,576 students at Glynco; 2,642 students at Artesia; and 331 students in export programs. The total includes 11,236 basic students; 15,772 advanced students; and 2,541 state and local students for an ARSP of 2,116.

Over the past decade, the Center has experienced enormous growth in the training demanded by its participating agencies. In addition to the steady increase in training, the FLETC has also been faced on two previous occasions with unprecedented and unplanned increases in its workload demand as a result of Administration and Congressional initiatives. We have been able to accommodate many, but not all, of these increased training demands by undertaking extraordinary measures. Regrettably, some of those training needs, particularly advanced training, had to be deferred. In order to accommodate the increases, the Center had to temporarily expand its capacity for housing, dining, classroom, office space, storage, and special training facilities using temporary buildings and contracted facilities. Many of the temporary measures taken were costly, and they adversely impacted the Center's operations. Further, the Center has not always had space to accommodate all of our students in on-Center housing and has used contractual arrangements with local motels to house our overload.

The Center is once again faced with an unprecedented and unplanned increase in its workload, as a result of the Administration's and Congress' action authorizing a substantial increase in INS and USBP law enforcement personnel. The Center's current facilities do not have the capacity to accommodate the training; therefore, a temporary facility is being established in Charleston, South Carolina. It will be used to conduct USBP training that cannot be accommodated at the Glynco and Artesia training centers. As directed by the Committees on Appropriation, we will work with the INS and the Department of Justice to develop a closeout plan for the Charleston temporary training facility and provide it to the Committees by March 1, 1997.

This is the third time since 1984/85 that FLETC has taken extraordinary measures to meet the training demands of its participating agencies. It is the second time in the last eight years that a temporary training facility has had to be established. In fiscal year 1989, a temporary training facility was established at Fort McClellan, Alabama, to meet a similar increase in the USBP training workload.

Opening temporary training facilities is a time-consuming and expensive process. It impacts on the cost effectiveness of the training provided and on the student's quality of life and overall training experience. However, as was done in 1988/89, the Center is taking steps to mitigate any impact the temporary training facility might have on the quality of training provided. We are extremely proud of our reputation for providing high quality, cost effective training and will take the steps necessary to ensure that the quality of training provided at Charleston remains high.

Our current budget does not have the funds to support this initiative. Therefore, the INS has agreed to incur all costs associated with establishing and running the temporary Charleston training site. They have also agreed to provide the additional instructor resources needed to accomplish the training.

It is not unusual for the Center to request that agencies reimburse the Center for costs associated with unplanned program increases that occur after the Center has received an appropriation. The Center has no other way of meeting the unplanned training requirements of an agency. Additionally, the advent of increasingly limited appropriations, coupled with increased costs for training support, has produced an environment wherein the Center's budget may be inadequate to cover all the costs associated with various training programs. Therefore, the Center may be required to seek reimbursement from the participating agencies for at least portions of certain other costs (e.g. telephone services) which have historically been provided to the agencies through the Center's funding.

FOREIGN TRAINING

In addition to training Federal, state, and local law enforcement officers, the FLETC provides training assistance to selected foreign governments in a variety of ways. These include operational briefings, technical assistance, and hands on train-

ing programs. Since 1979 the FLETC has provided training to more than 3,470 foreign law enforcement officials.

Recently, the amount of training assistance to foreign governments has increased due to world-wide tensions, the breakup of the Soviet Union, and the growth of international crime. I will discuss foreign training in more detail later when I brief this Committee on the activities of our National Center for State, Local and International Training.

FACILITIES MASTER PLAN

Now, Mr. Chairman, if I may, I would like to brief you and the other Committee members on progress being made in implementing the FLETC Facilities Master Plan. In its fiscal year 1988 appropriations, the Center was authorized $200,000 to be used for the development of a facilities Master Plan. The Master Plan, presented to Congress in June 1989, provided a basis for the efficient and orderly development of the Center's land and facilities resources. It was and is a comprehensive blueprint to guide the expansion of the Center so that it can more effectively support the present training workload as well as the workload projected for the future. The original plan requested a total of $86,010,000.

In September 1992, the Center updated the original Master Plan and provided a copy to Congress. The Master Plan update refined earlier estimates and incorporated changes necessary to meet the evolving training needs of our customers. Our current estimate to completely implement the Master Plan is about $120 million. Through fiscal year 1995, Congress has appropriated $51,708,000 or, about 43 percent of the funds needed.

Of the $51,708,000 already appropriated by Congress for Master Plan improvements, $44,043,000 was for Glynco projects; $7,365,00 was for Artesia projects; and $300,000 was for Marana projects. Recognizing the need to reduce discretionary appropriations, no Master Plan funds are being requested for fiscal year 1997.

I am pleased to report that steady progress in implementing the Master Plan continues. For example, a physical training complex at our Artesia facility was completed in October 1991. Construction of a new $6,460,000 dormitory at Glynco that began in early October 1991 was completed in April 1993. Expansion of our indoor firearms range complex, valued at $3,272,000 was completed in August 1993 and the consolidation/expansion of our physical techniques facility, valued at $6,036,000 was completed in October 1993. Construction to increase the capacity of our cafeteria, valued at $4,499,000 and two outdoor firearms ranges, valued at $5,892,000, was completed during 1994. Additionally, construction at Glynco on two classroom buildings valued at $10,556,000 and scheduled to be completed in May of this year is well underway and many of the smaller projects at our Artesia facility have been completed.

In fiscal year 1995, the Center started the construction of a tactical firearms training facility valued at $879,000; the construction of the facility should be completed in April of this year. Although it is not a Master Plan project, the tactical firearms training facility is being constructed in response to requests from our customers that additional emphasis be placed on tactical training and that it be as realistic as possible. This type of training, normally referred to as tactical firearms training, is necessary to properly prepare our law enforcement personnel to deal with the increasingly violent nature of today's crime.

The facility will have two non-lethal shoot-houses. One of the houses will be a one-story building and the other will be two-story. Additionally, there will be a one-story live-fire shoot-house. The non-lethal shoot-houses are designed so that most any type of city, urban, or rural situation can be duplicated: apartment, house, fire escape, balcony, etc., with appropriate furnishings.

Although live ammunition will not be used in the non-lethal shoot-houses, there will be minimal loss of realism because the students will be firing "non-lethal marking projectiles," at opposing forces. They will be using the same type weapons they carry on duty. However the weapons will be specially modified to fire only a marking projectile and will not be capable of firing live rounds.

Students who make their tactical team entry into one of the non-lethal shoot-house buildings will find role players representing bystanders, hostages, victims and adversaries. The adversaries will also be equipped with weapons loaded with the same type of non-lethal ammunition. Upon entering the building the students will interact with the people who have been strategically placed throughout the building formulating the scenario. These realistic exercises simulate the stress and its effect on the student, and provide the student with immediate feedback on mistakes he/she makes during a practical exercise.

Although no Master Plan construction funding is being requested in fiscal year 1997, we are requesting in the Acquisition, Construction, Improvement and Related Expenses account $110,000 for New Training Building Support and $1,350,000 for Environmental Compliance. Additionally $2,350,000 in Crime Bill funding is being requested for Fiber Optics. I will discuss these initiatives more fully later.

Mr. Chairman, I want to thank you and members of the Subcommittee for the support given the Center in its Master Plan development and implementation. We are pleased and grateful that Congress has seen fit to appropriate the funds necessary to ensure that our facilities can keep pace with the training needs of our customers. Only by doing so can we ensure the preservation of this important concept of consolidated training.

The Center continues to consult closely with its participating organizations so that the design features of each project will meet current and future needs. This close consultation sometimes prolongs the period it takes to design and construct facilities; however, we feel the time and effort are well spent because it ensures that funds are efficiently and wisely used.

In this regard, I want to stress that the Master Plan represented the best estimates of our needs at the time it was developed. Obviously, changing events have and will continue to dictate modifications to the various projects outlined in the Master Plan. I assure you that we will work through the Treasury Department, Office of Management and Budget, and the Congress in dealing with these changes. Additionally, we are now beginning the process to update the Master Plan for both the Glynco and Artesia centers.

Now if I may, Mr. Chairman, I would like to take this opportunity to discuss the four initiatives in the Centers fiscal year 1997 budget request that I briefly touched on earlier in my testimony.

DISTANCE LEARNING/COMPUTER BASED TRAINING

The Center is requesting $800,000 and 2 FTE in its fiscal year 1997 budget submission to take advantage of distance learning and computer based training technologies to meet some of the training requirements of our customers. We have been experimenting with distance learning and computer based training for the past several years. Unfortunately, we have not been able to take advantage of potential savings from introduction of these technologies because resources have not been available to properly support their introduction. This initiative would provide the necessary resources to take advantage of this modern technology and would result in long-run savings to the Government.

Although FLETC is extremely successful in providing quality training to large numbers of law enforcement personnel in a residential setting, in many instances, residential training is not the most cost effective method of providing some types of training. Distance learning is a good alternative for training which is time sensitive, short in duration, and does not require specialized support facilities such as physical, firearms, and drivers training. This initiative would fund the satellite uplink dish, and the contractual and FTE support necessary to give the Center the ability to provide this type of training to students at or near their duty posts. Live television broadcasts could be sent via satellite to hundreds of receiving sites throughout the nation reaching large numbers of students. The potential for savings to the Government in travel and reduced time away from work is great.

The funding will also provide the necessary resources to expand the Center's computer based training capabilities, complementing distance learning, and further increasing the efficiency of the Center. The Center has already introduced computer based training into some of its programs. Examples include instruction modules on word processing, electronic spreadsheets, database management, record keeping and legal concepts. However, to take full advantage of this technology, additional funding is necessary. With the funding requested, the Center would be able to purchase the necessary computer hardware and software for a 25 workstation lab to deliver computer based training. In the lab, students would be provided with additional practice opportunities to master essential law enforcement skills such as suspect interviews, execution of search warrants and arrest techniques. Computer based training will also provide students and staff with current information covering the student's learning progress, and provide remedial training related to demonstrated deficiencies in performance. This would be accomplished by tailoring training to the individual student through pre-testing to determine skills and post-testing to ensure mastery.

NEW TRAINING BUILDING SUPPORT

As I mentioned briefly in my testimony earlier, the Center is requesting $465,000 and 2 FTE for new training building support. Because of the nature of the request, it is split between the S&E ($355,000 and 2 FTE) and ACI&RE ($110,000) accounts. The funding and FTE requested is necessary to support the operation and maintenance of new facilities that are coming on-line. At Glynco these include the tactical firearms training facility that I discussed in some detail earlier in my testimony. Additionally, several facilities at our Artesia training center will also be coming on-line in fiscal year 1997. They include a permanent driver/firearms facility, new and relocated modular buildings, a new dormitory wing, and a practical exercise lab. The funding will provide the necessary resources and personnel to support operation of the new facilities including utilities, contracts janitorial/grounds maintenance) and minor construction and maintenance, and it is essential to protect the Government's investment in these facilities.

ENVIRONMENTAL COMPLIANCE

In the past, FLETC's compliance with environmental requirements has been on an emergency response basis with costs absorbed from existing resources. However, increasing requirements under environmental legislation and shrinking budgets makes it impossible to be in compliance without additional funding.

Environmental compliance is non-discretionary, and FLETC must be properly funded for the design and implementation of pollution prevention, hazardous waste, and recycling programs, if it is to fully comply with environmental laws, regulations and executive orders. The $2,060,000 and 1 FTE contained in our fiscal year 1997 request will allow the FLETC to comply with existing environmental laws and regulations, thereby protecting the health and safety of its own employees and students, as well as those of the citizens living adjacent to the FLETC. Again, because of the nature of this request, it is split between the S&E ($710,000 and 1 FTE) and ACI&RE ($1,350,000) accounts.

Examples of costly and serious environmental and health safety requirements that will be addressed by this initiative include: removal and disposal of underground storage tanks; analysis of solid waste discovered during construction; testing of water for lead; analysis, handling, and disposal of lead paint during renovations; and, maintaining and disposal of hazardous waste generated by the Center's firearms, driver training, printing and photography operations.

The funding requested will provide the necessary facilities and contractual/staffing support to address these important and significant health issues. If funding is not provided, the Center will not have the resources necessary to comply with all environmental laws and regulations and some of the Center's training operations could be adversely affected.

FIBER OPTICS

The current underground telephone cable plant at Glynco is owned and maintained by the Southern Bell Telephone Company. It has reached its capacity and cannot provide the necessary services for the Center and its customers to operate effectively and efficiently. Because of restrictions imposed by divestiture, Southern Bell cannot increase current capacity to meet the forecasted communications requirements of the FLETC, and the only alternative is for the FLETC to invest in its own fiber optics plant. This initiative requests $2,350,000 in Crime Bill funding for the first phase of a two-phase project currently estimated to cost $7,500,000. It will fund the site preparation, infrastructure work, and cabling of the facility. The second phase of the project would include purchase and installation of remote mode switches and building wiring. Funding for the second phase would be requested in fiscal year 1998.

By investing in a fiber optics plant, the FLETC can migrate to a modern comprehensive telecommunications system. The Center will be able to use current technology, adapt to new technology as it evolves, and expand automation into new areas as the need arises. This initiative will allow the FLETC to meet the current and future communications requirements of the FLETC and its customers including: high-speed data communications, Integrated Services Digital Network, video conferencing, imaging, message services, and the exchange of information among users both locally and at satellite facilities.

Now, I would like to take a moment and briefly update the Committee on activities of our satellite training center in Artesia, New Mexico, and the activities of our National Center for State, Local and International Training.

ARTESIA OPERATIONS

The Artesia center was purchased and became operational in 1989. Training facilities at Artesia include a 164-bed dormitory, cafeteria with seating to serve 250 persons per meal and a physical training complex. There are 14 general purpose classrooms which will accommodate up to 456 students. Special purpose classrooms include a 24-person computer classroom and a 24-person fraudulent document lab. Other specialized facilities at Artesia include a practical exercise area, a mock courtroom, driver training and firearms ranges, an obstacle course and a rappelling tower.

The Department of Interior's Bureau of Indian Affairs (BIA) Indian Police Academy, previously housed at the leased facility in Marana, Arizona was moved to Artesia during 1993. In addition to the BIA training that is conducted, Artesia also serves as an advanced training site for students posted in the Western United States. Additionally, because of its diverse special training facilities, it can accommodate overflow basic training that cannot be done at Glynco because of space limitations and will play an important role in meeting the training requirements of the INS over the next three years.

During fiscal year 1995, the Center trained 1,794 students at Artesia. In fiscal year 1996 the Center projects that 1,130 students will be trained at Artesia and 2,642 students are projected for fiscal year 1997.

Although the BIA and the INS are presently the largest users of Artesia, other users include the Fish and Wildlife Service, Federal Bureau of Prisons and the FLETC's National Center for State, Local and International Training.

The expansion of the Artesia center as authorized by the Congress is continuing essentially as planned. As mentioned earlier, construction of the new physical training facility has been completed. The cafeteria and student center complex has been completely rehabilitated and, along with the main classroom building, is fully operational. An interim driver/firearms training facility and ranges are in use. Construction was completed on permanent firearms ranges, and a driver/firearms administrative support building was completed during 1995. A much needed road and sidewalk network at both the main campus and the remote firearms and driving range complex also has been completed as well as acquisition of additional acreage for a buffer surrounding the remote firing and driving ranges. Additionally, 9 portable classrooms have been installed to accommodate the increase in the fiscal year 1996/97 training workload resulting from the INS buildup. The Center also recently approved the Architect and Engineering firm's sixty-five percent design stage drawings for the expansion of the Artesia dorm.

NATIONAL CENTER FOR STATE, LOCAL AND INTERNATIONAL TRAINING

Glynco's National Center for State, Local and International Training was established in 1982 by the President to provide much needed training for state and local law enforcement agencies. Since its inception, the National Center has received broad support from the Federal, state and local law enforcement communities which provide subject matter experts for course and program development as well as instructional services.

The National Center is charged with training personnel from state, local and international law enforcement agencies in advanced topics designed to develop specialized law enforcement skills. Drawing on specialized training facilities already available at the FLETC and the expertise of the participating agencies' and FLETC's staff, participants receive instruction in advanced programs to meet their specific needs, and in most cases, enables these agencies to be more supportive of Federal agencies and their missions.

During fiscal year 1995, there were 2,517 state and local students trained through the National Center in more than 40 selected advanced training programs. In fiscal year 1996 we expect to train 2,667. In fiscal year 1997 we project that 2,541 state and local students will receive training through the National Center.

Because of the success of the National Center, many of these programs are being conducted on an export basis at sites across the country, including our Artesia center. This has proven to be a cost effective method to provide training to state and local agencies. Additionally, exporting training to state and local academies and other locations throughout the country increases the Center's visibility and leads to improved cooperation between the Center and state and local agencies.

The National Center is now focusing its attention on the development and delivery of several high priority programs to address current and pressing needs of state and local police. One example is the Medicaid Fraud Training Programs.

Health care fraud is one of the fastest growing and most costly type of white collar crime in the United States. In a cooperative effort with the Department of

Health and Human Services' Office of the Inspector General and the National Association of Medicaid Fraud Control units, the National Center developed the Medicaid Fraud Training Program to ensure that newly hired or inexperienced Medicaid Fraud investigators received training designed specifically to meet their needs. This program was offered twice in fiscal year 1995 and will be offered twice in fiscal year 1996.

The tremendous success of the original program led to a request to develop an advanced program for experienced investigators. A preliminary planning conference was held in September of 1995 to begin developing the new program. It will contain courses on managed care fraud; asset identification, tracing and seizure; forensic document examination; trial preparation and other related topics. We expect to hold a curriculum development conference during fiscal year 1996 and begin offering the Advanced Medicaid Fraud Training Program in fiscal year 1997.

Last year we also expanded the National Center's responsibility by transferring to it the FLETC's international training program coordination/management responsibility. This was done with the expectations that the newly emerging democracies in Eastern Europe would look to the United States for assistance in obtaining training to deal with white collar and organized crimes. The same network and support structure in place to assist state and local agencies in meeting their training needs made the National Center a logical focal point for international training at the FLETC. This realignment of functions has proved timely as the demand for training from the international community continues to grow.

The FLETC currently supports two foreign law enforcement initiatives. The first is the "Law and Democracy Program" which, as you know, targets Central and Eastern Europe and the Baltic States. As part of this initiative, the FLETC is a full participant at the International Law Enforcement Academy in Budapest, Hungary, in cooperation with the Department of State, other Treasury bureaus, and the FBI. The second is the "Antiterrorism Assistance Program" which focuses on Central and South America and is also coordinated with the State Department.

During fiscal year 1995 the Center trained 329 foreign students, representing 1,025 student-weeks of training. Although the majority of the foreign training is done at the request and under the sponsorship of the U. S. State Department, the Center stands ready and has the capability to assist other agencies in meeting critical foreign training needs, particularly for the new governments in the former East block countries.

Recent examples of training provided include the International Banking and Money Laundering and International Financial Fraud Training Programs delivered to law enforcement officials from Russia, Poland, Thailand, Austria, Georgia, Kyrgyzstan, and Hong Kong during fiscal year 1995 and fiscal year 1996.

At the request of the Treasury Department and other U. S. Government agencies, such as the United States Information Agency, the Agency for International Development, and the Department of Justice, other training that has been provided over the last several years include court security measures for El Salvadorian police, basic police training for Panamanian police officers following the restructuring of the government of Panama, firearms instructor training of Hong Kong police officers, computer training for foreign government drug intelligence analysts from several Caribbean nations, crime scene investigation and case management programs delivered to Polish, Greek and Hungarian police officials, and money laundering training for Mexican government officials.

FINANCIAL FRAUD INSTITUTE

Mr. Chairman, if I may, I would now like to spend a few minutes discussing the Center's Financial Fraud Institute.

The Financial Fraud Institute (FFI) was established by the FLETC's Board of Directors in April 1989 to serve as the hub for the Federal Government's efforts in the fight against sophisticated white collar crime. The FFI provides training and/or coordinates training related research and course development, and provides an organized network for sharing training concepts/materials in the white collar crime arena including financial and computer crimes.

Being a proactive organization, the FFI identifies the training methodologies and provides the knowledge and skills criminal investigators need to combat the ever increasing sophistication of financial and computer crime. The FFI is an important element in dealing with this growing crime problem. Programs such as Criminal Investigations in an Automated Environment, White Collar Crime, Advanced Financial Fraud, International Banking and Money Laundering, Computer Evidence Analysis, Telecommunications Fraud and International Financial Fraud are examples of training that the FFI can provide.

In addition to the information gathering and research conducted by its staff, the FFI relies on feedback and guidance from a Consultant Group and the Federal Computer Investigations Committee to guide and direct its program development efforts. Recognized experts in the field of computer and telecommunications fraud serve on these committees and provide the FFI with advice and insight necessary to stay abreast of changing trends in this type of criminal activity.

The FFI Consultant Group, formed in 1989, acts as the primary steering committee for FFI and ensures the currency of its curriculum. It meets annually, and its membership includes representatives from the Secret Service, Customs Service, Internal Revenue Service, Financial Crimes Enforcement Network, Department of Treasury's Office of Enforcement, President's Council on Integrity and Efficiency, American Bankers' Association, Department of Justice, Federal Reserve Bank Board, Digital Equipment Corporation, American Institute of Certified Public Accountants, Stanford Research Institute, American Society of Industrial Security, American Bar Association and the Communications Fraud Control Association.

The Federal Computer Investigations Committee (FCIC), formed around the same time as the FFI Consultant Group, is an independent association of investigators, attorneys and other professionals involved in the prevention, detection, investigation and prosecution of all types of computer crime. Representatives from more than 30 Federal, state, county and municipal organizations regularly participate on this committee. It was born as a result of networking among the graduates of the FFI's programs. Its mission is to develop methods, standards and techniques for the successful identification, investigation and prosecution of complex computer and computer-supported crime.

To complement its curriculum offerings, the FFI has also organized and sponsored several brainstorming sessions or colloquies where experts in the field make formal presentations and discuss the latest advancements in hardware, software and investigative techniques to detect and/or prevent high-tech crime like telecommunications fraud. For example, in February the FFI hosted a colloquy on "Electronic Sources of Information." More than 90 investigators and prosecutors from both the state and Federal sectors attended representing organizations such as: the Financial Crimes Enforcement Network, National Security Agency, Central Intelligence Agency, Department of Justice, and the National White Collar Crime Center. Examples of topics covered in the colloquy are: "Law Enforcement in a Digital World," "Legal and Social Issues for Law Enforcement Investigations on the NET," and "Threats to Networks: Challenges for Law Enforcement and Investigations."

Now Mr. Chairman, if I may, I would like to briefly describe for you and the other Committee members the Financial Forensics Techniques Training Program, a new program that was developed and presented by the FFI during 1995. This program was developed after an exhaustive needs analysis and in response to requests from the Center's customers.

Once an investigator has obtained the computer records necessary to bring a case against an individual or corporation, he/she is faced with the formidable task of explaining to the prosecutor the significance of the various accounting records and documents that have been recovered. If the prosecutor is to convince the jury that the defendant is guilty of the crime, he or she must understand and appreciate not only the significance of the accounting documents and data, but how they are related and how they substantiate the elements of the crime. In a complex case, especially one involving fraud and money laundering, this problem can be compounded by the need to present hundreds of exhibits to prove individual financial transactions. The FFI's two week Financial Forensic Techniques Training Program was designed to address this need.

In this program, criminal investigators and others working in the criminal justice system develop the skills and abilities needed to understand and explain to a prosecutor and jury the significance and relationships between the myriad complex accounting and financial documents found in a sophisticated financial crime. Understanding the interrelationship of such records is critical to showing elements of criminal activity. During this program, the participants, all of whom are involved to some degree in large-scale financial investigations, are introduced to advanced accounting concepts and taught how these concepts can be subverted to disguise criminal transactions. Students learn to understand and explain complex structures of corporate records and identify seemingly innocuous indicators of financial fraud. The skill they learn in the program will allow them to serve as expert witnesses and assist with the preparation of exhibits to allow the jury to understand the significance of the evidence being presented.

CONTRACTUAL SERVICES

When the FLETC began operations at Glynco in 1975, management officials made a conscious decision to contract out all activities related to food service, dormitory operations, and janitorial services. These functions could be performed in-house; however, they are inherently commercial in nature and are best performed by contract. Since that time the FLETC has been very aggressive in implementing OMB Circular A–76, Performance of Commercial Activities. As a result, the operation of the following activities previously performed by Government employees have been contracted out: maintenance of roads and grounds; student transportation; security; maintenance of administrative buildings, dormitories and dining facilities; student registration; physical training clothing and equipment issue; warehouse support; firearms issue and receipt; post office operations; and student records management. In addition to the activities listed above, a considerable portion of the FLETC's photographic and audiovisual activities have also been contracted out.

Currently, approximately 35 percent of the FLETC's Salaries and Expense account goes to support these contracts. I want to assure the Committee that the Center will continue to investigate opportunities to reduce operating costs through contracting for services.

CLOSING

Mr. Chairman, I am committed to the mission of the Center to provide high quality training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility. I look forward to your continued support as we strive to remain a partnership committed to excellence.

I am available to answer any questions you may have concerning this appropriation request.

SECURITY

Senator SHELBY. Thank you.

I have a number of questions. Some will be for the record that we do not touch on, but some I will get to. I have a couple of questions regarding the security of our Federal buildings. While I realize that GSA is more properly in a position to answer detailed questions about what steps are being undertaken to ensure the security of Federal facilities and personnel, we are interested in this, and so are you. I want to ask you, Commissioner Weise, and you, Director Magaw, about this issue given the high profile of your agency's work in law enforcement and drug enforcement activities.

How do you deal with the security concerns that are raised by your agency's location in a particular Federal building, security concerns raised, for example, by neighboring businesses and other Federal agencies and their employees? Before you answer, let me give you an example of what I am talking about. I am sure you have seen many.

Recently, I have heard from many frightened constituents of mine dealing with the recent consolidation of several Federal agents in a downtown Federal building in Birmingham. The consolidation would house law enforcement agencies, ATF and Customs offices, with non-law enforcement agencies, like, for example, the Social Security Administration and the National Labor Relations Board. Not only do these concerns relate to sharing office space with law enforcement agencies, but adjacent proprietors in the business world also question the advisability of locating these agencies near neighborhoods, children's museums located directly across the street in this particular city in Alabama.

So I would like to ask you, as we have to continue to deal with these concerns in light of the reality of the horrible tragedy in

Oklahoma City nearly a year ago, how do we adequately deal with these very, very legitimate and real concerns of people, and in assessing the vulnerability of Federal facilities, is Customs, Commissioner Weise, and ATF, Director Magaw, considered high or low security risks?

Mr. MAGAW. ATF clearly would be considered a high security risk. No question about that. Each of the jurisdictions that we deal with are very controversial. There are high passions that run on all sides of that. Since the Oklahoma City bombing, we frankly have had trouble around the country finding a building that will accept us.

Senator SHELBY. Although I am emphasizing Birmingham, this is going on all across the country, is it not? Where you house high-profile law enforcement people, we will say Social Security people and everything else, right?

Mr. MAGAW. One of the things that we are trying to do is to look at Federal facilities that are available. The one you are talking about in Alabama is one where we are putting a number of different facilities together of law enforcement and the regular Government. And as a result of Oklahoma City there is a huge concern about that.

Senator SHELBY. A huge concern from the workers and their families and the proprietors.

Mr. MAGAW. Both sides. What we have done in our different buildings is we have regulators. Our regulatory people sometimes are out in unprotected areas altogether, and as we have to change space because of contracts running out or leases expiring, we are trying to put the law enforcement and regulatory personnel together. It also is financially more sensible, and it is also operationally more sensible. The problem is finding a place to do that. And once ATF does move within that structure, because of all the attention and because of the jurisdictions, it is going to be very difficult.

In our headquarters here there are absolutely no markings on the building anywhere. We have had to restrict parking, along with the metropolitan police being helpful all the way around the complex. We have had to take over paying the additional spaces in the underground parking that are normally handled by the public. We are trying to look at all those aspects, and we are trying to work out in each community what will work the best. Obviously, you have stated one of the problems.

Senator SHELBY. But the threat is real.

Mr. MAGAW. The threat is real. The threat is real, yes, sir.

Senator SHELBY. I also noted, Mr. Magaw, in your testimony that ATF has scheduled some security enhancement for your field installations around the country following what we call a security need survey. You mentioned x-ray machines. What other kind of security enhancements are we talking about, or can you speak of it?

Mr. MAGAW. Yes; I can. As a person gets off of an elevator on any particular floor and they walk into an office that is marked ATF where it appears, they do not realize whether those are regulatory personnel or whether they are support personnel or whether they are agent personnel. So what we want to do is try to have one entrance that is very convenient for the public, but yet is secure

for our people to greet them as they come in, identify what their concerns are, and then help them as quickly as we can.

Right now they may open a door in a hallway, and there sits two or three of our employees. It is kind of what happened here in the Metropolitan Police Department a few months ago now.

Senator SHELBY. Does ATF or Customs require different or additional security measures than, say, Social Security or VA or some of the other agencies?

Mr. MAGAW. I think in today's climate we have got to do something that is across the board in each of these buildings. The anti-Government rhetoric around the country is going to affect all Government employees. So I think we have to do something that is reasonable.

Senator SHELBY. But the risk is probably greater in some of the other agencies, is it not?

Mr. MAGAW. Clearly, it is greater in ATF.

Senator SHELBY. The risk is everywhere, I assume that.

Mr. MAGAW. Clearly greater in ATF, sir.

Senator SHELBY. Do your agencies work with GSA in recommending particular security measures?

Mr. MAGAW. Yes; we work with GSA right through. They find buildings that will fit those needs and that will be least expensive in adapting them. Anytime we can find a space—for instance, in one of our cities we found a space that was being moved out of by another Government agency that met our needs, had some of the security things we needed, so we tried to use that whenever possible, working through GSA.

Senator SHELBY. What kind of security measures do you contemplate could be taken by GSA to ensure the safety of the Federal workplace for your officers, Mr. Magaw, any agents as well as the Federal employees that chair office space with ATF and Customs personnel?

Mr. MAGAW. We went to an identification process that we are testing in our headquarters now and in a couple of other installations throughout the country, where all employees have identification. And if they are on particular floors, that identification will say which floors they have access to. That way the employees are not slowed down in getting to where they need to be, but a person walking in off of the street would have a different kind of a pass. And so the GSA, whatever type security guards are there, recognize the access of those identifications and where the persons are allowed to go.

Those who are coming in off the street for appointments which would not fit any identification category, then they are escorted back and forth by personnel from the offices involved.

Senator SHELBY. Mr. Magaw, what could I or anybody else tell their constituents that have an office building, Federal office building, anywhere in America like I have described, where you have ATF agents perhaps, and Customs agents, Social Security, VA workers, other agencies like that altogether? What are you going to do working with GSA and Customs and others to try to protect the workplace as best we can?

Mr. MAGAW. First of all, I think the key thing is the kind of things we are talking about. What can you institute in this build-

ing to make it safer, but even more important than that, sharing our intelligence. Where is the problem? What kind of intelligence do we have? Who are the potential problem makers? And try to circumvent these things before they occur as opposed to trying to build a fortress which would not work well for the employees or the public.

Senator SHELBY. I am going to recess the hearing for a few minutes while I go cast a vote.

[A brief recess was taken.]

FORMER UNDER SECRETARY

Senator SHELBY [continuing]. The subcommittee will come back to order.

Secretary Johnson, it is my understanding that former Under Secretary Ron Noble left the Department to return to private life in February of this year, several months ago. Is that correct?

Mr. JOHNSON. That is correct, sir.

Senator SHELBY. Raymond Kelly has been nominated to replace him, is that correct?

Mr. JOHNSON. Yes, sir.

Senator SHELBY. But he has not been confirmed by the Senate, as yet.

Mr. JOHNSON. That is right.

Senator SHELBY. It is my understanding that Mr. Noble has been retained by the Department in an emergency capacity, whatever that is, and we have heard, the committee has, some things that are quite disturbing, and I just want to go over them.

Has Mr. Noble been retained by the Department, or any other part of the executive branch of Government?

Mr. JOHNSON. Mr. Chairman, my understanding is that Mr. Noble has been retained as a consultant on a narrow category of issues. One of the projects that he was working on before he left was a review of policies in connection with the Good Ol Boys Roundup. When he left in February the policy review was not yet completed, and he continued his association with the Department as a consultant on that issue.

Senator SHELBY. Is that the only issue he has been retained on?

Mr. JOHNSON. No, sir.

Senator SHELBY. What are some of the other issues?

Mr. JOHNSON. There are either one or two, and I can check, but one is the financial action task force. He continues to work with the Department and represent the Department in connection with that task force. And I believe as well he maintains an association with Interpol.

Senator SHELBY. What is his compensation? What kind of a financial arrangement does he have with Treasury?

Mr. JOHNSON. Sir, I do not know the precise figures.

Senator SHELBY. Can you furnish that for the record?

Mr. JOHNSON. Yes, I will.

[The information follows:]

COMPENSATION OF FORMER UNDER SECRETARY

Mr. Noble was retained by the Department of the Treasury in connection with three discrete projects after his resignation on February 6, 1996. Mr. Noble origi-

nally was retained as an intermittent consultant effective February 26, 1996 to continue his work with the Good Ol Boys Roundup Review. His compensation was that of a GS–15, step 10 level, and was paid at an hourly rate.

The Department subsequently decided that Mr. Noble would continue as Treasury's representative on the Executive Committee for INTERPOL, and as President of the Financial Action Task Force (FATF). To avoid any disruption of FATF's work, and because an Under Secretary for Enforcement had not yet been confirmed, the Treasury Department and Mr. Noble agreed that he would continue as President of FATF until his elected successor to the FATF position could take over on July 1, 1996. All of the representatives from the FATF Steering Group countries (France, Great Britain, Italy, the Kingdom of the Netherlands, and Norway) requested Mr. Noble to continue on as President of the FATF. With respect to INTERPOL, Executive Committee slots are assigned to an individual rather than a country. Therefore, if Mr. Noble had vacated his slot, the United States could not have reoccupied the slot. In addition, INTERPOL's Secretary General and its President asked that Mr. Noble continue as a member of the Executive Committee. In order to preserve the United States' incumbency in these positions, it was decided that Mr. Noble should continue in these roles. Because it was not feasible for Mr. Noble to carry out these responsibilities as a consultant, his intermittent consultant appointment was converted to a 30-day appointment effective March 16, 1996, while the Department awaited White House approval for a conversion to a Schedule C appointment. Mr. Noble's compensation was at the GS–15, step 10 level, and was paid at an hourly rate.

On March 31, 1996, Mr. Noble was converted to a Schedule C appointment at a GS–15, step 10 level, and is paid at an hourly rate. This work will continue until Mr. Noble's work on these three projects is completed. Mr. Noble's employment status with the Department was cleared by Treasury's General Counsel's Office prior to his being retained.

Senator SHELBY. Do you know how often Mr. Noble is working on Government business as a retained consultant in these areas?

Mr. JOHNSON. Sir, I know that at least during the period before the Good Ol Boys Roundup he was working on a fairly frequent basis. He was providing invaluable assistance to getting that completed. I do not have his present work schedule.

Senator SHELBY. Do you know if he does that work in Washington, or somewhere else in the country?

Mr. JOHNSON. I believe that with respect to some of the work he does the work in Washington. I believe that he has attended a conference, at least one conference, perhaps more, abroad.

Senator SHELBY. Do you know where he currently resides? Does he live in Washington, DC?

Mr. JOHNSON. Sir, I believe he lives in New York.

Senator SHELBY. Is it a requirement of his employment as a consultant that he reside in Washington?

Mr. JOHNSON. I am aware of no such requirement.

Senator SHELBY. We have been told that, but we do not know that to be true. We want to find out for the record. Can you check that out and furnish this information for the record for the committee?

Mr. JOHNSON. Yes, I will.

[The information follows:]

RESIDENCY REQUIREMENT

It was not a requirement of Mr. Noble's employment as a consultant that he reside in Washington, D.C. Since his resignation on February 6, 1996, Mr. Noble has resided in New York. His employment as a consultant did not require that he reside in Washington, D.C., nor did it require him to perform the majority of his work in Washington, D.C. The Department of the Treasury retained Mr. Noble for three projects. Two of the projects (President, Financial Action Task Force (FATF) and Executive Committee Member of INTERPOL) were longer term projects. Mr. Noble was elected to both of these international positions without opposition, and his

terms did not expire before his departure from the position of Under Secretary for Enforcement. The Department and Mr. Noble also agreed that Mr. Noble would serve on INTERPOL's Executive Committee until a successor could be elected. The earliest that this can occur is during the first week of November, 1996. Both FATF and INTERPOL have their headquarters in Europe and occasionally require Mr. Noble's travel outside the United States to attend meetings and international relations missions. Neither of these positions requires Mr. Noble to reside in Washington, D.C.

The third project, the Good O' Boys Roundup Review (the Review) was short term. Mr. Noble resigned from Treasury on February 6, 1996, and the Review's report was published on April 2, 1996. Mr. Noble had established the Review in July 1995. The Department and Mr. Noble agreed that he would assist in completing the report by April 2, 1996. The nature of the work and the composition of the Citizens Review Panel did not require that Mr. Noble reside in Washington, D.C. He was able to edit multiple drafts of the report, and perform other work for the Review, from New York. When necessary, Mr. Noble traveled to Washington, D.C. to attend meetings with the Citizens Review Panel and to perform other work in connection with the Review. This is consistent with the Department's practice in other cases. For example, four of the six Citizen Review Panel members employed by the Department to work on this project lived outside of the Washington, D.C. area. Similarly, in the Waco Review all three outside advisors lived outside of Washington, D.C., and in the White House Security Review three of the six Advisory Panel members lived outside Washington, D.C.

Senator SHELBY. And if it were true, how could he be residing somewhere else other than here? Of course, we will determine that with your help.

Mr. JOHNSON. I am fairly certain he resides in New York, but I will make certain and get that information to you.

Senator SHELBY. Has Mr. Noble traveled overseas on Government business since he officially left the Department?

Mr. JOHNSON. I believe that he has had at least one trip overseas.

Senator SHELBY. What was the purpose of that?

Mr. JOHNSON. I believe that was in connection either with his duties at Interpol or with the financial action task force.

Senator SHELBY. You do not know yourself. Will you find that out for the committee?

Mr. JOHNSON. Yes, I will.

[The information follows:]

OVERSEAS TRIPS

Mr. Noble has taken four overseas trips on government business since he resigned from the position of Under Secretary. Those trips are set forth below, along with their purpose and cost, and the entity that paid.

1. On March 16, 1996, on behalf of INTERPOL, Mr. Noble traveled to Lyon, Paris to attend INTERPOL's 113th Session of the Executive Committee. The expenses for this trip were paid by INTERPOL, and accepted by the Department pursuant to 41 C.F.R. Section 304–1.

2. On March 27, 1996, on behalf of INTERPOL, Mr. Noble traveled to Wiesbaden, Germany to attend and make a presentation at INTERPOL's Executive Committee luncheon on behalf of Treasury. Mr. Noble personally paid for all costs associated with that trip, which included lodging, meals, and incidentals (estimated cost $414) and air fare (estimated cost $348) for a total estimated cost of $772.45. Acceptance by the Department of Mr. Noble's payment of his official travel expenses is authorized under its gift acceptance authority statute at 31 U.S.C. 321 (d).

3. Mr. Noble traveled to Ankara and Istanbul, Turkey for two events associated with his duties as President of FATF. On April 24, 1996, Mr. Noble led a delegation with representatives from the United States, Germany, Italy, and the FATF Executive Secretariat, to meet with senior officials from the Government of Turkey. Separate meetings were held with the Minister of Justice, and appropriate Under Secretaries of the Ministries of Treasury and Interior to communicate concerns over Turkey's failure to comply with the FATF's 40 recommendations on money laundering. On April 25 and 26, 1996, Mr. Noble chaired a seminar on money laundering

and the FATF 40 recommendations in Istanbul, Turkey. The seminar was attended by delegates from twelve countries. Both events had been scheduled by the FATF prior to Mr. Noble's departure from Treasury. The trip was paid for by the Department of the Treasury at a total cost of $2,088.98.

4. On May 28, 1996, Mr. Noble traveled to Paris, France to chair a regularly scheduled meeting of the FATF Steering Group. Steering Group meetings are held in Europe approximately one month prior to every FATF Plenary. The next FATF Plenary is scheduled for June 25–28, 1996 in Washington, D.C. During the Steering Group meeting, Mr. Noble reviewed the issues to be discussed at the upcoming FATF Plenary including, the review and revision of the FATF 40 recommendations, and the issuance of a public report on current trends in money laundering. Upon his arrival, Mr. Noble met with the FATF Secretariat to prepare for the Steering Group meeting, and the next day chaired the day-long meeting of the Steering Group which included representatives from Great Britain, France, Norway, the Kingdom of the Netherlands, Italy and the United States. The trip was paid for by the Department of the Treasury at a total cost of $1,535.05.

Senator SHELBY. Did he travel on the Concorde at Government expense?

Mr. JOHNSON. Sir, I do not know that that is the case, but I can find that out.

Senator SHELBY. Can you find that out? And if that is so, that would be unusual travel, would it not? Expensive travel.

Mr. JOHNSON. I would think that would be both unusual and somewhat expensive.

Senator SHELBY. Do you believe that travel on the Concorde at Government expense is usual and appropriate?

Mr. JOHNSON. I do not believe that it is usual, sir.

Senator SHELBY. Or appropriate?

Mr. JOHNSON. I believe that there may be some circumstances where it would be appropriate, but without knowing more——

Senator SHELBY. Not usually. Would you, then, provide the committee with a documentation of Mr. Noble's reimbursement and documentation of costs associated with travel in his most recent capacity, what he went for, what he did, and the committee would also like to have a summary of the services that he has provided for the Department since leaving the Office of the Secretary and his compensation.

Mr. JOHNSON. I will provide both categories of information.

Senator SHELBY. Would you do that?

Mr. JOHNSON. Yes, I will.

[The information follows:]

TRAVEL EXPENSES OF FORMER UNDER SECRETARY

Mr. Noble did not travel on the Concorde at government expense. Mr. Noble traveled twice on the Concorde on behalf of INTERPOL. The Department accepted reimbursement from INTERPOL for the cost of a business class ticket pursuant to 41 C.F.R. 304–1. Both of these trips occurred while Mr. Noble was Under Secretary of the Treasury for Enforcement. The first trip occurred in March of 1995 and the second occurred in June of 1995. Mr. Noble's INTERPOL travel to Executive Committee meetings in Lyon, France was not paid for with U.S. Government funds. As an ordinary part of INTERPOL's business practices, it pays for all of its Executive Committee members' travel at the business class rate. Mr. Noble's INTERPOL travel on the Concorde did not cost more than the standard business class rate. At the time Mr. Noble flew to INTERPOL's Executive Committee meetings in Lyon, France, two airlines had a special option package which permitted any passenger to fly one leg in a standard aircraft and one leg on the Concorde at the business class rate. Mr. Noble took advantage of this special.

SUMMARY OF SERVICES

Mr. Noble provided services to the Department on three specific issues described below.

1. *Good O' Boys Roundup Review.*—When the Department of the Treasury first learned in mid-July 1995 of the existence of the "Good O' Boys Roundups," the Secretary asked then Under Secretary for Enforcement Ronald K. Noble to lead Treasury's review (the "Review"). Mr. Noble had been responsible for three prior reviews, the Tax Refund Fraud Study, the Waco Review and the White House Security Review, which gave him substantial expertise in conducting a comprehensive review. Mr. Noble assisted the Secretary in appointing a Citizens Review Panel of prominent Americans to provide guidance and public oversight of the Review, and testified before the Senate Judiciary Committee on July 21, 1995 regarding Treasury's plan for reviewing the allegations of misconduct.

From July 1995 until relinquishing his Treasury post on February 5, 1996, Mr. Noble was personally involved with every aspect of the Review. Beginning in early October, Mr. Noble met regularly with the Director and Assistant Director of the Policy Review, and consulted frequently with the General Counsel on the legal aspects of the Review. Mr. Noble was the Department's principal liaison to the Citizens Review Panel whom he met with regularly. In December 1995, Mr. Noble traveled to Utah to brief Citizens Review Panel member Rex Lee who, because of illness which would eventually claim his life, could not travel to Washington. Mr. Noble also was extensively involved in working with members of the Office of Enforcement, the Office of the General Counsel, and the Policy Review team in mapping out the recommendations of the Review.

After Mr. Noble returned to New York University Law School, he agreed to serve as a consultant to the Review, which was then in its final weeks. From the day he was brought on as a consultant for the purposes of the Policy Review, until after the Departmental's final report was released to Congress and the public, Mr. Noble's expertise and hard work made publication of a quality report possible. Mr. Noble was instrumental in the articulation of the fifteen recommendations of the Review. He was consulted about all proposed recommendations. Mr. Noble read multiple drafts of the report, editing along the way and advising the Department and the Policy Review Team of areas where further research was needed. Mr. Noble took an active role in providing advice on this project to Deputy Assistant Secretary Elisabeth Bresee while she was performing the duties of the Under Secretary for Enforcement. Mr. Noble also provided advice to both the Secretary and the Deputy Secretary on the Policy Review and related matters.

2. *The Financial Action Task Force (FATF).*—The United States has been at the forefront of an effort to promote a cohesive, multinational strategy to combat money laundering. The logic underlying this approach is simple. Since money laundering is inherently a transnational phenomenon, the only way to attack the problem is to promote the adoption by all nations of strict enforcement and regulatory regimes. Otherwise, money launderers simply will "forum shop," shifting their business to and through countries with less stringent controls.

The FATF has been a primary instrument for advancing this strategy. The FATF was formed in 1989 by the G–7 nations to cultivate effective anti-money laundering controls and enhanced cooperation in investigations among its membership and around the globe. The FATF is a policy making body designed to generate political will—to stimulate legislative reforms addressing money laundering. In the six years since it was convened the FATF has made significant progress. The organization's membership has swelled from the original G–7 nations to include all countries participating in the Organization of Economic Cooperation and Development, plus Hong Kong, Singapore, the Gulf Cooperation Council and the European Union. More importantly, virtually all of its members, including most notably traditional bank secrecy proponents such as Austria and Switzerland, have undertaken significant legislative reforms to comply with the 40 FATF recommendations. For example, whereas prior to the establishment of the FATF money laundering was a criminal offense only in the U.S. and a couple of other nations, now all but one FATF member have such laws in place.

In addition, FATF has been instrumental in bringing about legislation which in turn has made major transnational investigations possible. For example, Operation Dinero was a 1994 DEA/IRS investigation conducted jointly with authorities in Spain, Canada and Italy which targeted an international laundering ring connected to the Cali Cartel. Dinero culminated in the arrest of 116 suspects in the participating countries, as well as the seizure of more than $90 million in cash and nine tons of cocaine. The Italian suspects arrested in connection with the investigation were

arrested under an anti-money laundering law passed in the wake of, and to comply with, the FATF 40 recommendations.

Since 1989, Treasury Enforcement has headed the U.S. delegation to FATF, which includes representatives from the Justice and State Departments and the bank regulators. In July 1995, then Under Secretary Noble began a one-year term as President of the organization. Mr. Noble has capitalized on the U.S. presidency to advance U.S. interests, namely promoting the adoption of strict legislative and regulatory regimes that encourage voluntary compliance by all nations. To this end, during his tenure as President, FATF's external relations efforts have been be a priority. Other significant items on Mr. Noble's agenda have been initiating a second round of mutual evaluations—this time to assess not only whether members have instituted laws and procedures conforming to the 40 FATF recommendations, but whether those laws and procedures are being enforced effectively. Finally, Mr. Noble has been overseeing a critical examination and revision of the 40 recommendations to account for intervening developments in money laundering techniques and countermeasures.

In his capacity as FATF President, Mr. Noble has continued to pursue these initiatives since leaving the Treasury Department. Noble has overseen the process, and has been instrumental in negotiating significant commitments from key countries. In addition, at Mr. Noble's behest, the FATF will issue, for the first time, a public report on current trends in money laundering techniques and countermeasures. Mr. Noble will continue to serve as FATF President until July 1996, when Italy assumes the FATF presidency.

3. *INTERPOL.*—Originally formed in 1923, INTERPOL is an inter-governmental organization established to facilitate information sharing and coordination among nations in international criminal investigative matters. This coordination is made possible by a network of National Central Bureaus (NCB's), one located in each of INTERPOL's 176 member countries. The NCB serves as a member nation's point of contact with other members and with the INTERPOL General Secretariat in Lyon, France.

INTERPOL plays a key role in U.S. law enforcement strategy. Indeed, as crimes such as illegal gun trafficking, smuggling, counterfeiting, and money laundering have become more global in scope, INTERPOL has proven an indispensable resource. During the first six months of 1995, for example, INTERPOL's U.S. NCB provided assistance in more than 6000 domestic and international criminal investigations. The current head of the U.S. NCB is a Treasury Agent from the U.S. Customs Service.

In October 1994, then Under Secretary Noble was elected to serve a three-year term as a member of INTERPOL's 12 member Executive Committee. The Executive Committee is in effect the organization's "Board of Directors." It makes recommendations to the General Assembly, approves programs and budgets before submission to the General Assembly, and ensures that General Assembly decisions are implemented.

Mr. Noble's service on the Executive Committee places the U.S. and the Treasury Department in a position to influence the goals and priorities of international law enforcement. Since leaving the Department, in his role as Executive Committee member, Mr. Noble has continued to advance U.S. and Treasury law enforcement interests by, for example, emphasizing anti-crime initiatives targeting financial crimes, money laundering, illegal gun trafficking, counterfeiting and tariff and trade violations.

The Executive Committee meets three times a year, twice in Lyon and once in connection with INTERPOL's annual General Assembly meeting.

Summary of Costs

The costs for Mr. Noble's overseas travel, and the purpose of those trips are set forth above. The following sets forth the costs for Mr. Noble's travel within the United States since leaving the Department, and the purpose of those trips. The costs include travel, hotel, and per diem costs.

1. 2/28/96–2/29/96: NY to DC. Total cost: $356.40 (paid by the Department). Purpose: to attend meetings regarding the Good O' Boys Roundup Review (the Review).

2. 3/7/96–3/8/96: NY to DC. Total cost: $314.70 (paid by the Department). Purpose: to attend meetings regarding the Review, and to prepare for Citizens Review Panel meeting.

3. 3/11/96–3/14/96: NY to DC. Total cost: $808.08 (paid by the Department). Purpose: to attend meetings with officials within the Department regarding the Review, and to attend the 3/14/96 Citizens Review Panel meeting.

4. 3/24/96–3/25/96: NY to DC. Total cost: $338.20 (paid by the Department). Purpose: to attend meetings with officials within the Department regarding the Review, and to attend the 3/25/96 Citizens Review Panel meeting.

5. 4/1/96–4/2/96: NY to DC. Total cost: $449.65 (paid by the Department). Purpose: to attend meetings regarding the Review, in preparation for sending the Review's report to Congress. Attended press briefing regarding the public release of the Review's report.

6. 4/19/96: NY to DC. Total cost: $151.50 (paid by the Department). Purpose: to prepare for upcoming FATF meeting in Turkey and FinCEN symposium.

From February until the present time, Mr. Noble has been compensated for the 226 hours he has worked on behalf of the Department in New York, Washington, D.C., and during his overseas trips on official business. The total salary compensation that the Department has paid to Mr. Noble since his departure is $11,169.21.

REDUCED FUNDING

Senator SHELBY. Secretary Johnson, the Commerce, Justice, State Subcommittee of the Appropriations Committee reduced funding for organized crime drug enforcement task forces for the fiscal year 1996. I understand that upon review of the reduction the Justice Department chose to reduce reimbursement to Treasury bureaus, is that correct?

Mr. JOHNSON. I believe that is correct, sir.

Senator SHELBY. Do you know how much funding we are talking about?

Mr. JOHNSON. I do not know the total amount.

Senator SHELBY. Could you furnish that for the record?

Mr. JOHNSON. Yes.

[The information follows:]

REDUCTION IN OCDETF REIMBURSEMENTS TO THE TREASURY DEPARTMENT

As you indicated, the Appropriations Subcommittee on Commerce, Justice, State reduced funding for the Organized Crime Drug Enforcement Task Force (OCDETF) in its fiscal year 1996 appropriations. In the final version, Justice's reduction to its reimbursement to Treasury bureaus was somewhat less dramatic than originally proposed. However, the impact will still be felt by Treasury. The table below is taken from information provided to us by the Justice Department in its "Summary of Resources by Program."

OCDETF FISCAL YEAR 1996 DEPARTMENT OF JUSTICE REIMBURSEMENT TO TREASURY

	Fiscal year 1995 enacted		Fiscal year 1996 enacted		Difference	
	Amount	FTE	Amount	FTE	Amount	FTE
Customs	$28,133,000	318	$26,715,000	[1] 284	$1,418,000	34
ATF	10,300,000	96	9,752,000	96	548,000	.....
IRS	37,147,000	423	35,274,000	361	1,873,000	62
Total	75,580,000	837	71,741,000	741	3,839,000	96

[1] This FTE estimate, revised from the President's budget, reflects Customs' recalculation of the compensation and direct support costs of positions to be funded with OCDETF resources.

The fiscal year 1996 enacted level is $3,839,000 less than the fiscal year 1995 enacted level. Three Treasury bureaus are impacted by the reduction; namely, the U.S. Customs Service; the Bureau of Alcohol, Tobacco, and Firearms; and the Internal Revenue Service. Each of the bureaus is absorbing the reduction in its own unique manner. I will briefly describe the impact on each bureau.

U.S. Customs Service.—The Organized Crime and Drug Enforcement Task Force (OCDETF) was established in fiscal year 1982 with the primary goal to target and investigate individuals involved in illegal drug trafficking and money laundering. Treasury (represented by Customs, IRS and ATF) participates in OCDETF activities along with the Department of Justice, with DOJ acting as the administrator. In fis-

cal year 1996, Customs will contribute 284 FTE to OCDETF activities and will be reimbursed $26.715 million for its participation.

Bureau of Alcohol, Tobacco and Firearms.—ATF has experienced a funding shortfall in OCDETF for many years. The fiscal year 1996 budget proposal of $10,471,000 was to be the first year that the Bureau would realize a fully funded OCDETF budget. Historic funding deficiencies have necessitated the realignment of resources from support and operational object classifications to fund pay and benefits. While ATF has been able to cover pay and benefits costs, the availability of funding resources for supplies, equipment, mission travel and other support items has declined dramatically.

During the past 5 years ATF has not received more than 2.8 percent of available OCDETF resources. The current funding level has been reduced to 2.7 percent. This is in stark contrast to the level of ATF's participation in OCDETF investigations. During fiscal year 1993 and 1994, ATF initiated 35 percent of all OCDETF investigations and had over 65 percent of all OCDETF investigations resulting in charges. In fiscal year 1995, ATF participated in 34.6 percent of investigations initiated and 32.3 percent of investigations resulting in charges.

ATF's fiscal year 1996 budget request included a reduction in the grade levels of special agents assigned to OCDETF to provide full funding for the OCDETF program. However, due to the complexity of investigations, ATF has not implemented the proposed grade level reductions. Pay and benefits comprised 77 percent of the Bureau's proposed OCDETF budget, as compared to 91 percent of our current funding level. As a consequence, increased pay and benefits costs coupled with the $719,000 reduction to the program have eliminated all support, except essential mission travel and agent cashier funding.

Historically, ATF has subsidized the cost of vehicles, supplies, and all other contractual costs from the Bureau's Direct appropriation. Current base erosion problems in concern with Direct appropriation funding reductions make it virtually impossible to sufficiently support the OCDETF program.

Internal Revenue Service.—During fiscal year 1996, Criminal Investigation (CI) will allocate 356 special agent FTE's to OCDETF case work (task case work) and 329 special agent FTE's to non-OCDETF narcotic case work. The total of fiscal year 1996 special agent FTE's applied to narcotic law enforcement will be 685 FTE's.

During fiscal year 1995, CI allocated 414 special agent FTE's to OCDETF case work and 329 special agent FTE's to narcotic case work. The total of fiscal year 1995 special agent FTE's applied to narcotic law enforcement was 743 FTE.

REDUCTION IN FUNDING AND FTE'S

Senator SHELBY. Do you have a judgment as to about how much it would be?

Mr. JOHNSON. It would be speculation on my part, sir.

Senator SHELBY. OK. Do you know how many people would be involved?

Mr. JOHNSON. I do not know the number of FTE's.

Senator SHELBY. Do you know how the bureaus are dealing with this?

Mr. JOHNSON. No, sir; I do not.

Senator SHELBY. How about any of the bureaus? Do you have any comment on it? How are you dealing with it? Director Bowron, are you familiar with that?

Mr. BOWRON. I think that our arrangement with the organized crime drug enforcement task force [OCDETF] was on a case-by-case basis, and we were not funded. Now, we were participants in the HIDTA task forces, and still are. But with OCDETF, I do not think we were formally affiliated with FTE's and funding.

Senator SHELBY. Mr. Lane, Customs has been affected by this, has it not?

Mr. LANE. I think, Senator, it is about $3 million and about 40 FTE's. I will check that for you.

Senator SHELBY. Will you do this for the record?

Mr. LANE. Yes, sir.

[The information follows:]

OCDETF FUNDING

	Amount	FTE
Fiscal year 1996 Customs Service request	$29,275,000	318
Fiscal year 1996 enacted	26,715,000	284
Difference	2,560,000	34

Senator SHELBY. What has had to be done to cover the cost of these agents? What have you done there, any of you? Start with Customs.

Mr. LANE. Sir, if we lose those positions we will have to absorb those losses and try to minimize the impact on our enforcement operations.

Senator SHELBY. When we look at the budget request for 1997, we have not been able to find any mention of organized crime drug enforcement task force funding. In other words, if you look at the budget request, we do not see any organized crime drug enforcement task force funding requested. Are you familiar with that, Secretary Johnson? Do you understand what I am asking?

Mr. JOHNSON. Yes, sir; as I understand it, it is under the Justice appropriation bill.

Senator SHELBY. What if the same thing happens again, this year? What if they cut back again? Would that unduly affect some of these agencies here? Customs, Secret Service, ATF?

Mr. JOHNSON. As Mr. Lane pointed out, I believe it would have an impact.

Mr. MAGAW. Mr. Chairman, ATF was supposed to be cut by 20 percent, but then they reneged on that and gave us the full amount for this year. But it becomes questionable every year, and it really is a troublesome thing for us to work with.

WHITE HOUSE SECURITY REVIEW

Senator SHELBY. Mr. Bowron, as Secret Service Director, I want to ask you some questions about the White House security.

Mr. BOWRON. Yes, sir.

Senator SHELBY. There were several attempts since September 1994 to breach the White House security, coupled with last year's bombing of the Federal building in Oklahoma City, I think demonstrated the need for a review and enhancement of White House security, is that correct?

Mr. BOWRON. Yes, sir.

Senator SHELBY. In fact, an independent White House security review was conducted, was it not?

Mr. BOWRON. Yes.

Senator SHELBY. And specific recommendations were made to enhance security in the fiscal year 1996 for that purpose.

Mr. BOWRON. Yes.

Senator SHELBY. The balance of the initiatives in your fiscal year 1997 budget, I understand, are for additional uniformed personnel and White House related security, is that correct?

Mr. BOWRON. Yes.

Senator SHELBY. Director Bowron, how much funding would be required to implement the security enhancements recommended by the review team dealing with the White House security?

Mr. BOWRON. We came up with a total of about $68 million, Mr. Chairman. Of that, with this budget for fiscal year 1997, plus what was received in fiscal year 1996, we will be pretty close to achieving the $38 million that was, in fact, I think, approved both through the Department and through the Office of Management and Budget. That still leaves us with a shortfall of between $24 and $28 million in terms of complete implementation of all of the recommendations.

Senator SHELBY. Of the recommendations by?

Mr. BOWRON. By the review, yes.

Senator SHELBY. What funding recommendations for the White House security were made by OMB? Are you familiar with that? Do you want to check that for the record? In other words, what funding recommendations for the White House security were made by the Office of Management and Budget.

Mr. BOWRON. Well, I think, Mr. Chairman, if I understand your question correctly, there were 38 million dollars' worth of recommendations made by the review that were approved by OMB and Treasury. At the time, I think, OMB made the statement or reported back to Treasury and to the Secret Service, that they felt the balance should more appropriately be sought through the normal budget process as opposed to an amended fiscal year 1996 budget request. We are continuing to try through the normal budget appropriations process to secure funding for those initiatives.

Senator SHELBY. With the understanding that we realize you cannot specifically cite your priorities in an open session and should not, are current funding levels, Director Bowron, sufficient for the security priorities of the Secret Service overall? Are current funding levels sufficient for the security priorities of the Secret Service?

Mr. BOWRON. We have some security priorities where we are going to experience a shortfall.

Senator SHELBY. We can talk about those at another time and place.

Mr. BOWRON. Yes.

Senator SHELBY. How many of the funded FTE's for fiscal year 1996 have been or will be hired by October than this year?

Mr. BOWRON. We projected, Mr. Chairman, the FTE base restoration last year on the basis of 140 FTE's. We expect by October 1 to be right at 140, give or take 1 or 2. I mean, I think 139 or 140 positions is what we will have on board as a result of that funding increase.

Senator SHELBY. Director Morris, I want to direct a few questions to you, if I could, regarding regulatory effort. The Financial Center—FinCEN, is that what you call it?

Mr. MORRIS. Yes.

Senator SHELBY. Has been reaching out to the banking community to form partnerships. As a member of the Banking Committee and the chair of a subcommittee over the financial institutions, we have had hearings on that, too, so that I am familiar with some of it, but not to the extent you are in your capacity. So that as you

reach out to the banking community to perform partnerships so that regulatory burden may be reduced while enforcement agencies can get access to information on a timely basis, because I believe you need that, it is my understanding that you have made efforts to work in partnership with both private organizations and other Government agencies in order to carry out your counter money laundering initiatives, which are so important to curtail the drug traffic.

As I understand it, your partners are founded on the Bank Secrecy Act Advisory Group, as well as in Federal, State, and local law enforcement, is that correct?

Mr. MORRIS. Yes.

Senator SHELBY. How will you utilize this partnership in the future to bring about improvement in combating money laundering and other financial crimes?

Mr. MORRIS. Mr. Chairman, we have tried to move away from rote reporting, which was the attention of the Bank Secrecy Act through the 1970's and 1980's. We recognize that the complexity of money laundering, the shrewdness by which money launderers move their money, requires a different approach. And what we have worked out with the financial institutions is to enlist them as allies in ways in which they can help identify unusual or suspicious activity. This will assist the Customs Service and Secret Service and FBI and other agencies to obtain better information from the people who really know about what is unusual or suspicious activity in the financial area.

This is something that parallels some efforts that Director Bowron's agency has undertaken, as well, which is a recognition that if we in good faith sit down and work with the industry, industry representatives will believe that it is clearly in their interest to not allow the financial institutions of this country to be used by organized crime. Secretary Rubin has played a major role in encouraging such cooperation. And in taking that major step, they are then prepared to make the investments and provide the analysis, essentially, that will provide the leads necessary for our investigators to weed out the crime.

Senator SHELBY. Not in all the details, I know you would not want to relate that in an open hearing, but how are you working the international activity? I know day to day and hour by hour.

Mr. MORRIS. Yes; the fact is that money knows no borders. And as you know from your experience in both intelligence and the banking committees, while we still require visas and we still have Customs checks, money can go in and out of financial centers at the speed of light through wire systems and the like. But it has become very clear that the dirty money will go to the weakest link. So the Secretary last September hosted a meeting of all of the countries in this hemisphere trying to build a partnership with them to encourage them to adopt the same rules, regulations, and preventative measures to keep their very fragile new democracies and their new efforts at free enterprise clean from dirty money. And it is not just in this hemisphere, but indeed around the world.

Senator SHELBY. How is it working? I know it is not perfect.

Mr. MORRIS. It is not perfect. Indeed, I am leaving this evening for San Francisco. We have 36 countries meeting in San Francisco,

which we, along with Interpol, are working with to help them design mechanisms and systems. It is a long process. The first and most important part of the process is to make it understood, not just to the police, because the police have understood this for some time, but also in the central banks and the finance ministries, that dirty money drives out good money and is bad for the economies.

Senator SHELBY. That is hard to sell to some of these weak-link countries, is it not?

Mr. MORRIS. It is hard to sell, and it does not mean that we will prevail in every area, but I think we have clearly raised the international standards. It is an area that needs continued nurturing.

Senator SHELBY. But to make that work you have got to have a whole new mindset of some of the weaker countries, as far as their bank regulation laws, is that correct?

Mr. MORRIS. That is absolutely correct, and indeed it was very heartening for those of us who believe that this is such an important area to have the President, at the United Nations' 50th anniversary, announce that we were going to take a very hard look at some of these money laundering havens, and we are now doing that.

Senator SHELBY. How would you judge your success thus far?

Mr. MORRIS. Slow but steady.

Senator SHELBY. How many of the weak link countries are going to come to this conference you are talking about?

Mr. MORRIS. Probably one-third. But every country can become a weak link.

Senator SHELBY. Fast, huh?

Mr. MORRIS. Yes.

BORDER PATROL BUILDUP

Senator SHELBY. Director Rinkevich, I have a few questions for you. The administration proposed to hire a number of new INS and Border Patrol personnel in fiscal year 1996, which we are in. The center, your center, has been working with the Department of Justice to accommodate training of these new hires. Could you review the actions the center has taken to provide the training necessary to accommodate the training of these people?

Mr. RINKEVICH. Yes, sir; the first thing that we did was to identify all of the opportunities that we would have at both our Glynco and Artesia facilities to accommodate the basic training. As you know, our Board of Directors determined that basic training has a priority over all other training. So we first identified the capacity that could accommodate the basic training, not only for the Immigration Service but for our other customers. And in doing that we realized that we had, in fact, inadequate facilities to handle all of the training. At that point, the Immigration Service and Department of Justice——

Senator SHELBY. Did you say you had adequate?

Mr. RINKEVICH. Inadequate facilities. At that point, the Immigration and Justice Department, with our involvement, made the decision to seek an alternative site on a temporary basis, and that is the reason we are at the Charleston Naval Station. With the opening of that temporary facility and the complete utilization of our Artesia and Glynco facilities, we are able to accommodate all of the

basic training requested by our agencies, including the Immigration Service and the Border Patrol.

NEW HIRES

Senator SHELBY. The 1997 budget request calls for a large number of law enforcement hires in Treasury and Justice. How will you handle the training if these positions are funded? Can you do it?

Mr. RINKEVICH. Yes, sir; we believe that we will be able to do it. We have coming online at our Glynco facility some permanent construction that has been funded by Congress in the past. It will give us additional classroom space, an additional drivers training complex, and an additional firearms tactical training complex. That, in combination with temporary facilities——

Senator SHELBY. Are you talking about the 20-year deal that we are already into?

Mr. RINKEVICH. Yes, sir; and those new facilities, in tandem with the temporary facilities that we have had online for the last 4 or 5 years to handle our capacity, keeping those temporary facilities online will give us enough capacity to deal with the workload that is coming down the pike.

RESOURCE CONCERNS

Now, I should comment that Congress is contemplating a doubling of the Border Patrol. That would create an entirely new ball game for us, and that is something that we had not anticipated.

Senator SHELBY. You would not have the resources to handle the training for that, would you?

Mr. RINKEVICH. For the doubling of the Border Patrol? I think we would not, sir.

MASTER PLAN STATUS

Senator SHELBY. If we go back to the master plan, you know, the development that you alluded to, in 1996, the budget we are in now, there was no money that was requested for the master plan there, and none is included for the 1997 request. So what is the status of the master plan in view if we were to double the Border Patrol? You have got to train people, have you not?

Mr. RINKEVICH. Yes, sir; to answer the question in terms of the status of the master plan, the total master plan cost for both facilities, Artesia and Glynco, is something approaching $120 million. Against that, the Congress has appropriated something approaching $52 million. So we are, in effect, in a 60–40 posture.

Senator SHELBY. You are also in a stop position, too, are you not?

Mr. RINKEVICH. Well, we are also in a stop position because, as you point out, this budget does not contain any funds for master plan or new construction.

Senator SHELBY. Do you know if the administration supports the continuation of the master plan?

Mr. RINKEVICH. The administration, particularly the Department of the Treasury, does support the administration of the master plan. The dilemma, of course, is the lack of discretionary dollars available to be requested for this year.

INFRASTRUCTURE CONDITIONS

Senator SHELBY. Would you furnish us for the record a review of where you stand? In other words, what kind of facilities you have, what you would need to do to address the problems of an aging infrastructure.

Mr. RINKEVICH. Yes, sir; I would be glad to do that.

[The information follows:]

MASTER PLAN STATUS

The Glynco center is located on 1,500 acres and has over 250 buildings; the Artesia center is located on 225 acres and has approximately 50 buildings. Almost all of the buildings are old: Glynco was originally a Naval Air Station and most of the buildings are 40 years old; Artesia is a former college and the buildings are 25 years old. Both centers include buildings and/or facilities that provide the basic infrastructure for law enforcement training, including: dormitories, cafeteria, classrooms, firearms training, driver training, physical training, and administrative space. Since the buildings are old, it requires substantial maintenance and upgrading to keep them operational. The FLETC receives approximately $5 million per year for this purpose but recently had to reprogram over $6 million of Master Plan funds to accomplish four very large and critical infrastructure projects. We will have to continue to evaluate the highest priority projects and fund them first to ensure that the training mission can continue uninterrupted.

OPERATION HARDLINE

Senator SHELBY. Commissioner Lane, dealing with Customs, the Customs Service is implementing a program along the Southwest border that Customs calls Hardline, is that correct?

Mr. LANE. Yes, sir.

Senator SHELBY. The committee provided some funding in the last two appropriations bills for the initial aspects of this program and the fiscal year 1997 budget request seeks a significant amount of resources for this. You are familiar with that?

Mr. LANE. Yes, sir.

Senator SHELBY. Could you briefly outline what Hardline is intended to do, and how have the resources previously provided been used? Could you do that?

Mr. LANE. Yes, sir; as a result of significant successes by all of the law enforcement agencies over the last 10 years in addressing the narcotics trafficking problem in the Southeast, the trafficking has shifted substantially to the Southwestern United States, using Mexico as a transshipment country. In response to that, many Federal agencies, including Customs, have been giving renewed attention to strengthening border enforcement activities in the Southwest.

I think you alluded to, and Mr. Rinkevich as well, that the build-up of the Border Patrol, which obviously is helping with aliens, also helps with drugs. DOD has been helping us build fences along the border to keep out drugs. That has meant funneling more and more drugs through the ports of entry, where Customs detection techniques have been picking out a lot of the drug traffickers and cars coming in loaded with 500 pounds of cocaine. Often when selected by a Customs inspector, traffickers would then run the port; that is, leave at high speed to avoid detection and apprehension by Customs.

We have used a lot of the money in Hardline that you provided in 1996 and that we got from the Office of National Drug Control

Policy [ONDCP] and from reprogramming within Customs to harden those ports of entry to prevent the port running activity; to provide protection for our officers in an increasingly violent area of the country, vests and those sorts of things; and to put up barriers to prevent the high-speed exit. So primarily, the money this year went for those sorts of things, and some of it is going to detail additional personnel down on the border to increase our operations activity.

For 1997, the positions that we are asking for are to increase our capacity to do more and more intensified cargo and vehicle inspections, for additional dog teams, and for additional agents to handle the workload of all the drug seizures that we are making down there.

Senator SHELBY. Do you believe this has been a successful program?

Mr. LANE. I think the Commissioner mentioned in his testimony, Senator, that we had decreased port running by over 40 percent just this year, with what we were able to do internally and what was provided in the crime bill. Even within that reduced number of port runners we are apprehending more of them, and our drug seizures are increasing down there, and I think we are being much more effective, although the problem remains very grave.

OPERATION GATEWAY IN PUERTO RICO

Senator SHELBY. Yesterday I understand it was announced that you joined with the Governor of Puerto Rico announcing the onset of Operation Gateway there. Could you describe what Gateway is and how it fits in with other Customs interdiction efforts? And second, how will you fund the operation? I think it is important to fund it.

Mr. LANE. Yes, sir, thank you. You mentioned the Southeast. The full force of the Federal Government, reacting against drug trafficking, did a pretty good job. It drove it to the Southwest. We are not able to respond as quickly as the traffickers, but the agencies are down on the Southwest border now in force. Consequently, what we have observed over the past year or two is increased smuggling and drug activity in Puerto Rico, more air drops, more marine smuggling, and more violence in the Commonwealth of Puerto Rico.

We went down there late last year, assessed the activities along with our special agent in charge and port directors, and decided we needed to increase our activity down there. We asked them to develop a program locally to provide us with ideas on how to address that problem. Once again, we tried to do what we could with our own funds. We got some more I think out of the forfeiture fund at Treasury. Treasury also helped us with ONDCP to get some additional funding, and we put forth a request in our 1997 budget for additional funding.

Working cooperatively with the Puerto Rican Government, they offered to provide some funding out of the Puerto Rico trust fund, and Treasury this week agreed to use their gift authority to accept that money to enable us to put additional people down there and increase our defenses against air traffic and air drops and marine enforcement and cargo coming in from Puerto Rico.

REPORT FROM TASK FORCE ON NATIONAL DRUG POLICY

Senator SHELBY. Recently, Commissioner Lane, the Task Force on National Drug Policy issued a report that was critical in two areas of the Customs Service and its counterdrug efforts. First, it questioned the Customs commitment to drug interdiction, suggesting that perhaps Customs has become a facilitation agency, and quote, and that Customs has downplayed its enforcement and interdiction role.

Second, the report speaks to a significant decrease in the number of flight hours flown by the Customs Service in recent years. Specifically, it addresses both hours overall flown and those flown in the transit zone. Do you want to comment on that?

Mr. LANE. Well, I would say it is wrong.

Senator SHELBY. How.

Mr. LANE. The Commissioner mentioned in his testimony that our No. 1 priority is narcotics enforcement, and we continue to be devoted to it. I think Operation Hardline probably represents one of the largest, if not the largest, internally focused and financed operation out of reprogramming to address a very major drug enforcement problem.

Once again, in Puerto Rico we are in front of the curve. When things were getting bad, we were the first agency there to recognize it. We should be. We are the first line of defense. And we continue to develop new techniques. In fact, right now the Commissioner has authorized and we are beginning an agencywide training to improve our enforcement capabilities using problem solving policing techniques across the board. And we just instituted this, doing the training first across the Southwest border, and then the remaining Southern tier, where the drug problems are so bad. We have just agreed to expand the training nationwide. So we are going to be more and more effective and continue to invest in it.

As for the drop in air hours, our budget has decreased somewhat over time. Other agencies have joined the drug war which has helped us. The Coast Guard and DOD do a lot more in air support operations, and we have been able to maintain our interdiction at almost the same levels that we did when our funding was almost twice as high.

Senator SHELBY. Has Puerto Rico been a weak link, as far as once you come into Puerto Rico you go through Customs there. That is the end of it, is it not? Or has been.

Mr. LANE. Well, it is somewhat of the end of it. We think that we can do a much better job, and we will be doing a much better job under Gateway.

Senator SHELBY. That is why you are doing it, is it not?

Mr. LANE. Exactly.

Senator SHELBY. Because you see that as a problem area, is that correct?

Mr. LANE. That is correct.

ANTITERRORISM FUNDING

Senator SHELBY. Mr. Magaw, as Director of the Bureau of Alcohol, Tobacco and Firearms, I have a few questions for you. In the wake of the Oklahoma City and the World Trade Center bombings,

the Congress provided supplemental funding for the Bureau to use in antiterrorism activity. Funds were provided for a national response team, security, and other programs. Could you briefly outline here today how these funds are being spent, and what impact these funds have been on the Bureau's ability to accomplish your mission dealing with antiterrorism.

Mr. MAGAW. Yes, sir; the funds have been spent in the three or four areas that you are talking about: in the area of equipment; in the area of training our personnel; and development of more complete national response teams. National response teams before did not have, from time to time, chemists on them. They did not have building or structural engineers. By placing those two professional people on those teams it makes them a much more viable unit.

They used to come in and help at the scene, and then others agents would take over the investigation. Now, the national response teams are coming in and doing more of the complete investigation. Our bomb trucks are in very bad shape. So we are looking at replacing two or three of those, or maybe six. We are also looking at repairing the others so that we have response all over the country.

AIRCRAFT

Senator SHELBY. It has been reported in some of the media accounts, Mr. Magaw, that ATF has procured a number of OV–10 aircraft from the military, is that correct?

Mr. MAGAW. That is correct. A couple of years ago, Mr. Chairman, we were looking at our costs for leasing aircraft to oversee some of our special investigations. For instance, there was an awful lot of smuggling of tobacco and alcohol products into Canada. Those trucks run a long way, and sometimes they will pull over in a lot and stay there for 3 or 4 days, observe who is watching, and then come back. Some of those observations and things are done much better by aircraft, for the security of a lot of our buys in our undercover operations. But we found that our costs were very high.

We also found some fraud in that program. We identified that fraud. The case is with the U.S. attorney now, and we expect that to be settled later. But as a result of looking at all of that and then seeing that the OV–10's were available at no cost from the Government, it is a wonderful observation platform. It is made for an observation platform. We removed all of the abilities—the military removed all of the firing and weapons off of the aircraft. Those portals and everything were sealed. They were repainted, and we have used seven of them.

Senator SHELBY. For observation.

Mr. MAGAW. For observation, that is correct.

Senator SHELBY. Are you going to be able to save appreciable amounts of money by doing this, and still do your job, or maybe do your job better?

Mr. MAGAW. We are saving money over what we anticipated spending for lease, but my concern was one step further, sir, and others sitting at this table. Do we need an air unit in ATF, and also an air unit in Customs.

Senator SHELBY. Do you?

Mr. MAGAW. I am not sure. There is a study going on right now. Our pilots and their pilots are working together to see if we can combine the two, reduce some of the equipment involved, and still meet the needs of both agencies. My guess is that it is going to be better combined, but I want to wait and see.

Senator SHELBY. When is the study due out?

Mr. MAGAW. They have about another 3 or 4 months to run on it.

Senator SHELBY. Would you furnish us a copy of that when it becomes available?

Mr. MAGAW. Yes, sir; we will send you a copy.

[The information follows:]

STUDY ON COMBINING AIR PROGRAMS

When the study is completed a copy will be sent to the subcommittee under a separate cover.

LABORATORY CONSTRUCTION

Senator SHELBY. The budget request, Director Magaw, includes $62 million for construction of a new laboratory for ATF, is that correct?

Mr. MAGAW. That is correct.

Senator SHELBY. What is the status of the current laboratory facility, and what will the proposed facility give you that you do not currently have?

Mr. MAGAW. The laboratory now, by all Government standards in terms of occupying it by Federal employees, is substandard. And so we have been told by all those units and by GSA that we need to move and relocate our personnel. Our laboratory oversees what goes into the bottles of alcoholic beverages; it watches what is in the tobacco in the cigarettes; forensics provides support for our chemists for our criminal investigations; and it also watches over the products that we collect taxes on.

Senator SHELBY. Does it duplicate other labs in the country?

Mr. MAGAW. It duplicates in a very small area, and that would be in some of the postal labs that have the ability to do some bomb scene evaluation. The FBI lab at Redstone Arsenal has some of that ability, and so there is a crossover in that particular area.

Senator SHELBY. What is the impact on the ATF if the committee did not find the funding for the new lab? Would it be a tremendous negative impact in the future?

Mr. MAGAW. Well, it would. Our laboratory is located here in the Washington, DC, area. In addition to the kinds of things that they do as far as the lab is concerned, they also have a research and experimental unit. For instance, we have had a number of fires throughout the country that have caused tremendous problems in terms of plastics being stored in warehouses, and for some reason those plastics are catching fire. So anytime there are unusual circumstances surrounding anything like that, we have worked very closely with the University of Maryland. They have a tremendous fire program there, one of the finest in the country. So the collaboration of all of those things have made it very beneficial for it to be here in the Washington area. And also, because of its different

characteristics and needs, it makes it difficult for it to be combined with others.

INTERSTATE FIREARMS TRANSACTIONS

Senator SHELBY. Director Magaw, dealing with interstate firearms transactions, I would just like to clarify a couple of points that you made in your March 15 response to a letter. You stated that an off-premises sale to another dealer is a crime because of the fact that the Gun Control Act of 1968, specifically Title 18 U.S.C. 922(3)(a), requires a separate fee to be paid for every place where a licensee/dealer conducts business. However, it is section 922 that is entitled unlawful acts, not 923. You are familiar with the code.

Mr. MAGAW. Well, not off the top of my head. Still in 2½ years I have not learned all of these yet.

Senator SHELBY. Could you do this, just for the record, and since some of us were concerned, since 922 of title 18 comes under the title unlawful acts, whereas 923(a) talks about separate fees. Can you point to—for the record, would you do this—any provision in the act which states, "that it shall be unlawful for a licensee dealer to personally deliver a firearm to another licensee"?

Does not the act possibly state that a licensee dealer can do just that, and is it required that a licensee dealer use a common carrier to transport, ship, or receive firearms or ammunition covered by the license, or can personal transportation or delivery be used? And I am going to furnish you a copy of this. Is there a specific site in a statute which requires a licensee to ship his or her firearms back to his or her home State and then reship them to another licensee in order to consummate a firearms transaction conducted at an out-of-State gun show rather than exchange them in person?

In other words, does the term "consummate a firearms transaction," appear anywhere in the Gun Control Act? And does ATF simply—have you simply ignored the last sentence of section 922(d), which states the restriction on geographic firearms transferred outside the home State of a dealer do not apply to transactions between licensees? You know, that is all in there, but some of us are wondering about your interpretation, at least your letter.

Will you furnish this to the committee?

Mr. MAGAW. I will, sir.

[The information follows:]

INTERSTATE FIREARMS TRANSACTIONS

Senator SHELBY. You stated that an off-premises sale to another dealer is a crime because of the fact that the Gun Control Act of 1968, specifically 18 U.S.C. 923(a), requires a separate fee to be paid for every place where a licensee/dealer conducts business. However, it is section 922 that is entitled "Unlawful acts."

Director MAGAW. The Gun Control Act of 1968 (GCA), 18 U.S.C. Chapter 44, makes it abundantly clear that violations of section 923 are criminal offenses.

Section 924(a)(1), Title 18, U.S.C., specifies those GCA offenses that are punishable by a maximum term of imprisonment of five years. Violations of section 923 are punishable as 5-year felonies under section 924(a)(1)(D) which makes it an offense to violate "any other provision of this chapter." "Chapter" refers to Chapter 44, Title 18, U.S.C., which includes section 923. Statutory titles or headings are not interpreted by the courts to limit the plain meaning of a statute, and are considered only when they shed light on ambiguous statutory language. *Brotherhood of R.R. Trainmen* v. *Baltimore & Ohio R.R.*, 331 U.S. 519 (1947); *Genentech, Inc.* v. *Eli Lilly and Company*, 998 F.2d 931 (Fed. Cir. 1993).

Senator SHELBY. Can you point to any provision in the Act which states that "it shall be unlawful" for a licensee/dealer to personally deliver a firearm to another licensee?

Director MAGAW. No. The GCA does not make it unlawful for a licensee to personally deliver a firearm to another licensee. Indeed, the Act does not preclude a licensee from delivering a firearm to another licensee in any manner.

Senator SHELBY. Is it required that a licensee/dealer use a common carrier to transport, ship or receive firearms or ammunition covered by the license, or can personal transportation or delivery be used?

Director MAGAW. As stated above, the GCA does not prohibit a licensee from personally delivering firearms to another licensee or delivering them to the licensee in any other manner.

Senator SHELBY. Is there a specific cite in the statute which requires a licensee to ship his firearms back to his home state and then re-ship them to another licensee in order to consummate a firearms transaction conducted at an out of state gun show, rather than exchange them in person? Does the term "consummate a firearm transaction" appear anywhere in the Gun Control Act?

Director MAGAW. Several provisions of the GCA show that licensees are generally required to conduct their firearms business from their licensed premises: 18 U.S.C. § 923(a), requiring a separate fee for each place at which business is conducted; 18 U.S.C. § 923(d)(1)(E), requiring a license applicant to have a premises from which to conduct business as a condition to licensing; 18 U.S.C. § 923(g), imposing the duty to keep records at the licensed premises and making firearms records and inventories available for inspection at that location; and 18 U.S.C. § 923(h), requiring licenses to be posted and available for inspection on the licensed premises.

Congress recognized this restriction in 1986 when it enacted an exception enabling licensees to conduct business temporarily at gun shows located in the State specified on their license. Pub. L. 99–308, 100 Stat. 451 (1986); 18 U.S.C. § 923(j). The courts have also recognized that off-premises sales by licensees violate the GCA. *United States* v. *Ruisi*, 460 F.2d 153 (2d Cir. 1972).

The term "consummate a firearm transaction" does not expressly appear in the GCA. The GCA requires licensees to conduct business from their licensed premises. ATF has interpreted the requirement to mean that licensees must "consummate" their firearms sales at their licensed premises, *i.e.*, delivering the firearms from that location. In Rev. Rul. 69–59, 1969–1 C.B. 360, ATF's predecessor agency interpreted the GCA to permit licensees to have a booth or table at a guns show away from their licensed premises and take orders for firearms at that location. However, the ruling stated that delivery of the firearms must be effected from the licensed premises.

ATF's interpretation is a reasonable one. If licensees were permitted to take orders for firearms off-premises and immediately deliver the firearms, all incidents of the sales would occur off-premises. In these instances, licensees would clearly be conducting business at unlicensed locations in violation of the GCA.

Senator SHELBY. Does ATF simply ignore the last sentence of section 922(b) which states the restrictions on geographic firearms transfer outside the home state of a dealer do not apply to transactions between licensees?

Director MAGAW. We agree that 18 U.S.C. § 922(b) does not preclude licensees from shipping, transporting, or delivering firearms interstate to other licensees. However, section 922(b) does not address the location at which licensees must conduct business. Other provisions of the GCA discussed above generally restrict licensees to their licensed premises in conducting business.

FISCAL YEAR 1996 PRESIDENTIAL CAMPAIGN FUNDING

Senator SHELBY. Director Bowron, dealing with the funding for the 1996 Presidential campaign based on past campaign expenses incurred by the Secret Service, historically there have been funds available at the end of the campaign. While it may be premature at this time to predict a surplus of funds provided for the 1996 campaign, I would like to explore with you just a couple of scenarios.

Do funding levels appear to be adequate for the campaign and conventions at this time?

Mr. BOWRON. Yes, sir, they do.

Senator SHELBY. In the past the available surplus has been reprogrammed for other purposes. Do you have needs that you would look to reprogram funding, and what are the approximate costs of those needs? I know we are looking in the future, but since we do not have as many people left standing in the Presidential quest, you are probably not going to have the expenditure you could have had.

Mr. BOWRON. We do expect there to be a surplus. As you indicated, Mr. Chairman, it may be premature to identify exactly what the amount of that surplus will be. But certainly, we have got several high-priority needs which include things that stem from the White House security review that are very high priority with the Secret Service that would require funding. We are in the process of making a good assessment of what the available campaign funding may be and will be making a reprogramming request in the very near future.

But there are a number of things to include. We were over budget for UN–50. UN–50 was an extraordinary event. We expected it to be an extraordinary event, but it was even more expensive than we anticipated. We had an unanticipated visit of the Pope that was unfunded and that was expensive. In addition to that, it is also too soon at this point to determine exactly what the impact of the Olympics will be with respect to our protective responsibilities. And last but not least, and as I already said, some of the recommendations from the White House security review need funding. We will make a very strong case for reprogramming funds toward that end.

OVERSEAS ANTICOUNTERFEITING

Senator SHELBY. In your direction again, I would like to touch on counterfeiting.

Mr. BOWRON. Yes, sir.

Senator SHELBY. What is the status of the overseas positions which were funded in previous years? If you cannot talk about it here, we will have a closed hearing.

Mr. BOWRON. The status in terms of the number of positions that have been filled and approved? We have 11 positions that have not been approved. The remainder of the positions have been approved. Some are in place.

Senator SHELBY. Why have they not been approved?

Mr. BOWRON. Well, there are different reasons in different places. In some locations, I believe in Manila, for example, the Ambassador, thus far, does not concur with the need for us to have an increased permanent presence. However, in Ottawa and in Moscow, it is primarily a space consideration and we are still in discussions with the State Department relative to those positions.

In Bogotá and in Hong Kong only part of our request was achieved, which accounts for a couple of additional positions. Everyone agrees that we will revisit this at a future date to assess our needs and make our case again.

Senator SHELBY. I understand that only 18 of the 28 positions have been approved by the State Department. Is that correct?

Mr. BOWRON. That is correct.

Senator SHELBY. Has the State Department provided you, as the Director of the Secret Service, or the Treasury Department or Sec-

retary of the Treasury, written rationale for denying the remaining positions?

Mr. BOWRON. I could not say, Mr. Chairman, that it has been in writing. I can say that my understanding falls along the lines of what I just described.

Senator SHELBY. Are you going to pursue those positions?

Mr. BOWRON. Oh, yes, sir. Yes, sir.

Senator SHELBY. Is there an ongoing dialog dealing with the Secretary?

Mr. BOWRON. There is an ongoing dialog through the Department and with the State Department.

Senator SHELBY. Between Treasury and the State Department?

Mr. BOWRON. Yes.

Mr. JOHNSON. Yes, Mr. Chairman. That is correct.

Senator SHELBY. Director Morris, technology continues to rock the financial world. We see new technology every day. Financial institutions are experimenting in the marketplace. Every week there are new ideas. Digital money appears to be on our doorstep, does it not?

Mr. MORRIS. Yes, it does.

Senator SHELBY. Could you briefly explain what digital money is and how it might impact all of us, and what it does to efforts such as yours to track it?

Mr. MORRIS. Actually, Mr. Chairman, it is not on the doorstep, it is in my hand. This is a wallet, essentially, that is issued by Mondex, which is one of the corporations that is developing, basically, digital money.

Senator SHELBY. Used to transfer funds, is it not?

Mr. MORRIS. It moves funds from a stored value card. Most of us use credit cards and some now give you access to your bank account, but this particular card has a microchip which stores the value in the card itself. You do not have to go to your account. And this wallet essentially allows you to move the money between cards in a face-to-face relationship totally outside the financial services industry, essentially unregulated.

Secretary Rubin has created an E-money council at the Department to look at both opportunities and risks of these new technologies. You can also essentially create your own wire system. As you know, Mr. Chairman, wire systems work between financial institutions. You can wire money from bank to bank.

Senator SHELBY. You have that now.

Mr. MORRIS. Yes; but with some of the new systems you basically do it from individual to individual. And so the potential there for money laundering is very significant.

Senator SHELBY. Are you falling behind? Is the market ahead of you?

Mr. MORRIS. I think we are well aware of what the risks and opportunities are. I do not believe we are falling behind, but we do have a request in the budget, as I mentioned in my statement, to make sure that we do not fall behind. We have met with all of the key entrepreneurs in the industry to explain what the problems might be for all of us in law enforcement and to enlist their cooperation. There are some problems that fall into the jurisdiction of the Secret Service and Customs and FBI, as well, and we are

all working together with the industry in this case, because we do not want the firms who are putting in these systems to create a new opportunity for money laundering.

Senator SHELBY. Thank you.

PREPARED STATEMENT

I have a statement by Senator Campbell which will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CAMPBELL

Mr. Chairman, I join my colleagues in welcoming the enforcement officials from the Treasury Department who have taken the time out of their schedules to testify before us regarding their 1997 budget requests.

First, let me begin by saying that you all have the difficult task of combating crime, gang violence, and other issues under your jurisdiction. I just want you to know that we recognize and appreciate your tireless efforts in these areas.

I'd like to use my limited time to focus on one important area—gangs. In Denver, Colorado there has been a gang problem since the early 1980's. We are experiencing an unprecedented wave of crime committed by young people on our country. In fact, according to the Bureau of Justice Statistics, 50 to 60 percent of all crime in the United States is committed by people 10 to 20 years of age. In our State of Colorado, gang formation and gang activity has become so menacing that society all but surrenders certain parks and neighborhoods to gun-toting teens.

Colorado is not alone. Experts say most urban areas will see a rise in youth violence, stemming from poverty, lack of educational and recreational opportunities, the growing number of single-parent families and a proliferation of firearm possession among youth.

Add to that a profound demographic change: The children of baby boomers next year will enter the 14- to 17-year-old age group.

Murders by teens in that group rose 124 percent from 1986 to 1991, according to the Department of Justice.

It is estimated there are currently 5,000 gang members in Denver, up from about 700 three years ago.

While not having the size of gang problem as Los Angeles or Chicago, Denver and the State of Colorado has an unmistakable gang presence.

In the summer of 1994, I hosted a gang summit, which consisted of gang leaders from the Crips, Bloods, Inca Boyz and their subsets along with members of various gang intervention organizations, including Open Door Youth Gang Alternatives, Gang Rescue and Support Project (GRASP) and the Amer-I-Can program founded by the former football great, Jim Brown.

During the sometimes emotional atmosphere of the summit, I got an idea of how far behind the curve we really are in addressing the gang problem. A lot of delay has been caused by piece-meal attempts to address the issue of gangs, and the lack of a coordinated policy on dealing with the gang problem. But I think we have a chance to combat this problem by cooperating and bringing our expertise together.

One model that demonstrates a cooperative effort, which is meeting with some success, to deal with the gang problem is the Denver Metro Gang Coalition.

This Coalition, which was formed on January 14, 1994, is made up of multi-cultural grassroots agencies that deal with at-risk youth, organizations that do street level gang intervention, corporations, programs that combat drug and alcohol abuse, former gang members, school districts, and local law enforcement agencies. They also have an AmeriCorps component.

By coordinating their efforts, the Coalition is able to focus on prevention while bridging ethnic barriers, and bringing a cross-section of voices to the table as they address the issue of gangs.

Mr. Chairman, I would like to conclude my remarks by stating I hope that one of the results of this hearing will be some strategies for those of us who work at the Federal, State and local level and are concerned about gangs in America, to work cooperatively to find some solutions to the problem. I don't believe that just throwing money at the issue in and of itself will address the problem, but to combine that with the expertise that the agencies here today—especially the Bureau of Alcohol, Tobacco and Firearms—have to offer is a good step toward combating crime and gang violence.

CLOSING REMARKS

Senator SHELBY. We will also have a number of questions following up in some detail to all of you that will be part of the record.

In closing, Mr. Secretary, I would like to thank you and your colleagues for being with the committee today. There is no doubt, as you well know, that we face difficult times, the pressures of downsizing, and continuing to do a good job that remains difficult at best as a continuing challenge not only to us but to you. I have indicated that fiscal year 1996 has been difficult. I do not see a lot of things getting better on this money side up here. Funds will be difficult to get, and you will have to spend them well.

We have a number of questions for the record, as I indicated, that we will send to you, as well as Senator Kerrey and some other colleagues. Mr. Secretary, I believe it is imperative that we receive responses to these questions as soon as possible to ensure that we have all of the data available in making our decisions, and we wish you could facilitate that.

Mr. JOHNSON. Yes, Mr. Chairman, we will.

SUBMITTED QUESTIONS

Senator SHELBY. The Treasury Department has always answered our questions in the past years in a diligent fashion, but I must say that we hope that will continue. I would ask that you use your good offices to see that the subcommittee does not necessarily get special attention, but that we do get some.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

Assistant Secretary for Enforcement, Jim Johnson

Under Secretary Noble's Activities

Mr. Secretary to follow up on the questions I asked during the hearing, I would like to address a few more issues.

Question: When is it appropriate to travel by Concorde? Is there a set policy or guidelines with regard to travel of this nature?

Answer: There are neither Treasury nor government wide regulations or directives specifically addressing U.S. Government-financed foreign air travel on the Concorde. However, such travel would appear to raise questions of travel on non-U.S. flag carriers (no U.S. flag carriers fly the Concorde) and travel using first class accommodations. There are government wide rules governing U.S. Government-financed foreign air travel on non-U.S. flag carriers. There are also regulations governing use of first class air travel accommodations either reimbursed by the government, or paid for by a non-federal source as authorized by 31 U.S.C. 1353. In addition, Treasury has issued a directive governing reimbursement for Premium Class Travel, including first class travel, and non-federal source payment for such travel. (See attached copy of Treasury Directive 74-13 (October 26, 1994).

The Fly America Act (49 U.S.C. 40118) and General Services Administration regulations that address that Act's requirements (41 CFR 301-3.6) prescribe the limited circumstances under which government funds may be spent to reimburse official travelers for the costs of flying on non-U.S. flag carriers. GSA regulations at 41 CFR 301-3.3 prescribe the limited circumstances under which officials may be reimbursed for official travel in first class accommodations.

There are circumstances in which an employee may travel on the Concorde on official business (but where the incremental cost of the Concorde over authorized reimbursement is not paid by the government). One such circumstance is prescribed by the government wide standards of conduct, 5 CFR 2635.204. Section 2635.204 (c)(2), permits employees to accept "opportunities and benefits, including favorable rates and commercial discounts...(i) Offered to members of a group or class in which membership is unrelated to government employment..." This would apply when a no-cost upgrade to a more expensive class of air accommodation or aircraft (including a seat on the Concorde) was offered to all members of the public purchasing a round trip ticket offering a lesser class of service, and the lesser class of service is authorized under government regulations.

Question: How often have Treasury officials used Concorde travel in the last two years? What were the circumstances?

Answer: Insofar as we are aware, there is no instance in which Treasury has paid the cost of Concorde travel. We have been made aware of three instances in

which Treasury officials have flown on the Concorde, but not at government expense, since April 1994.

In January 1996, the Deputy Secretary returned from Paris to the U.S. on the Concorde in order to participate in an important meeting related to the debt limit. The Secretary donated to the Deputy Secretary the ticket for that flight to the Department. The former Under Secretary for Enforcement has informed us of two instances in which he returned from Interpol meetings in France to the U.S. on the Concorde at no expense to the government. One instance was in March 1995 and the other in July 1995. In both cases, Interpol has paid for Mr. Noble's round trip, business class air fare between the U.S. and France, and the airline offered to anyone holding a round trip, business class ticket a no-cost upgrade to the Concorde for the return flight. Mr. Noble informs us that the Concorde's schedule and reduced flight time enable him to perform full days of work in the U.S. that otherwise would have been lost to travel time.

Question: It is not in your purview, but are you aware of policies of other government agencies?

Answer: As noted above, most of the guidelines that Treasury follows related to travel on the Concorde are government wide rules. We are not aware of supplementary policies that may have been adopted by other agencies.

Violent Crime Reduction Trust Fund Request

In fiscal year 1996 the Committee provided law enforcement agencies in the Department with 76 million, 514 thousand dollars from the Violent Crime Redcution Trust Fund. The fiscal year 1997 budget requests a total of 97 million, 200 thousand dollars for Treasury bureaus.

Question: Could you briefly outline what this funding is for?

Answer: Treasury proposes to use the Violent Crime Reduction Trust Fund (VCRTF) resources to leverage existing Treasury efforts against crime. In FY 1995, $39.7 million (of which $.241 million was rescinded from ATF) was provided to Treasury from the VCRTF. These resources supported 186 FTE and have allowed Treasury bureaus to initiate a series of important crime reduction initiatives, including investments in state of the art technology for tracing firearms used in violent crimes and technological improvements at southern border ports of entry. In FY 1996, $76.5 million was appropriated to Treasury. These resources will support 261 FTE and will provide funds for state and localities to combat firearms crime and interstate gun trafficking. Additional VCRTF funds will be used to enhance border enforcement, to fight overseas counterfeiting of U.S. currency and violence against missing/exploited children, and to increase training of and communication among federal law enforcement personnel. In FY 1997, Treasury is requesting an authorized level of $97.2 million and 119 FTE to build on FY 1995 and FY 1996 efforts.

Mr. Secretary, the Trust Fund currently has a 5 year life and this funding was

never meant to be used for covering the annual cost associated with personnel, yet if one looks at the details of the request, the Department is requesting funding for what appears to be salaries and expenses activities.

Question: Could you please discuss the request associated with FTE and the reasoning behind it?

Answer: The FY 1997 budget request for VCRTF seeks 119 FTE which is 142 FTE below the FY 1996 authorized level. The principal reason for the FTE reduction is to shift the source of funding for 100 FTE associated with White House Security from the VCRTF to base funding in the Secret Service's salaries and expenses account.

If one looks further at the request, there are a number of initiatives such as the purchase of vehicles and other equipment, which some would say should be requested in the respective agency's budget. It would appear that a pattern in evolving here.

Question: Do you see this as I do? Is this a trend?

Answer: I do not see a trend evolving. However, I do see a strong commitment to ensure that Treasury enforcement personnel receive appropriate equipment and resources to work effectively. When feasible the Department tries to fund on-going personnel costs with base resources; especially with new and/or high priority enforcement initiatives and most bureaus have some funding for vehicles and equipment in their base. The FY 1997 request to use VCRTF represents an effort to assist the bureaus because a significant portion of their vehicle and equipment is obsolete, per GSA or industry standards.

Question: Where did these proposals emanate? Were they in the initial budget submission the Department made to OMB?

Answer: The FY 1997 VCRTF proposals are the result of a collaborative process involving bureaus, the Department, and OMB.

Question: Do you know if other law enforcement agencies who receive trust fund monies have similar budget requests?

Answer: I am not familiar with the particulars within agencies budgets. Nonetheless, the Department of Justice's FY 1997 budget summary shows a FY1997 VCRTF request for $170.1 million and 269 FTE. Within this amount $100 million is being sought for drug courts and $25 million and 269 FTE for Federal Prison Drug Treatment.

Fiscal Year 1997 Initiatives

The Department is requesting a significant number of law enforcement initiatives in fiscal year 1997. As I indicated in my opening statement, times are not going to be any easier for the subcommittee in 1997 than they were in this year. If we

are able to fund any of these requests, priorities may have to be stressed. More importantly, I am concerned about the base funding. Every year the Committee faces the fact that initiatives are asked for but there isn't enough applied to fund those currently on board.

Question: Does this budget fund the base or are we going to see FTE go unfilled because there is not enough in the base request to fund them?

Answer: At the time the FY 1997 budget was formulated every endeavor was made to align FTE and dollars properly. However, federal law enforcement must respond to unanticipated circumstances appropriately and within available resources. And, when necessary, we respond to such incidents by foregoing routine base expenditures.

Question: Mr. Secretary, this may be a question for each of your bureau heads, but it is something that needs to be addressed--which is your preference funding the base or the initiatives that are being proposed?

Answer: Like most federal managers, I am committed to ensuring that Treasury enforcement base operations receive sufficient resources. Moreover, the FY 1997 budget request already reflects the preference and tradeoffs made the bureaus, the Department, and the Administration. I support the Department's request for base and initiatives resources.

International Trade Data System

The Department is requesting that $5.6 million be transferred from the Customs Service to the Departmental Offices account to continue efforts toward the creation of an "International Trade Data System".

Question: Could you please explain what this system is and what it is supposed accomplish?

Answer: The ITDS will be an integrated system for collecting, storing, and accessing data on international trade. Currently, over sixty agencies of the federal government collect or use data on international trade. An estimated 90 percent of this information is repetitive, that is, the same information is required to be reported to more than one agency. The ITDS will reduce the reporting burden imposed on the business community and will reduce data collection and processing costs for federal government agencies. In addition, it will ensure greater accessibility and comparability of data on U.S. international trade.

An inter-agency team began work on the system in January of 1996, and development is expected to be completed in 1998.

Question: If Customs is the prime repository and user in the Department. Why is the funding being transferred to the department?

Answer: Customs is only one of over sixty agencies and bureaus of the federal

government that will participate in the ITDS. Although it is envisioned that Customs will be responsible for collection of data, neither Customs nor any other agency will necessarily be a sole depository for the data. A more likely arrangement is that once data are collected (by a single agency) they will be managed by the individual agencies that have the primary interest in them. These separate data bases can be interconnected so that, from the standpoint of users, information can be accessed and, if desired, down-loaded through a single system. No decision has been made as to which agency will be the access provider for users; specifically, no decision has been made that access to the ITDS will be through the Customs Service.

Government savings are expected to come principally from elimination of existing multiple data collection systems, including for some of those systems the costs of converting data on paper documents to electronic data. In addition, if as a result of further study it appears that a single repository for data is significantly more economical than storage in separate systems, then that option will be developed. However, that option does not presume that the Customs Service will be the repository agency.

ITDS is being developed by an interagency group rather than by the Customs Service or any other single entity because it involves modifying and merging the data collection systems of over sixty agencies of the federal government. In some cases it may be necessary to recommend, or direct, that individual agencies modify their processes to conform to an integrated international trade data system. Because of the nature of this task, the work is being undertaken by an inter-agency project team, under the supervision of an inter-agency board of directors. It would not be appropriate, or likely be successful, for a single bureau such as the Customs Service to attempt on its own authority to accomplish the changes that are needed.

About half of the $5.6 million for the ITDS will fund the North American Trade Automation Prototype, or NATAP. NATAP is a real world test of the integrated data collection concept. Negotiated among the U.S., Canada, and Mexico, this prototype will not only reduce repetitive transmission of routine information, it will also for the first time allow both the exporting and importing government to view the same information. This will ensure greater comparability of trade data in the context of trade negotiations, it will provide a better basis for analysis of trade patterns, and it will significantly reduce opportunities for trade fraud. Companies participating in the NATAP will do so on a voluntary basis.

Question: How will the system be operated? Who will oversee operations?

Answer: All data about merchandise transactions will be collected once and made available for use by all federal agencies that have duties to perform in connection with the arrival or departure of persons, goods, or carriers. Also, the ITDS is envisioned eventually to address data on *non-merchandise trade*. Storage of the data, and provision of access to users, can be done in at least two ways, as noted above. One of the purposes of the ITDS project is to determine how best to collect, store, and access the data, and which agency/agencies should be responsible for storage and access portions of the system. As noted, if a single data depository is determined to be most economical, *there is no presumption that the Customs Service will be the single*

depository. In fact, Customs has expressed opposition to being made the federal government's depository for trade information.

In order to ensure that the needs of all agencies are taken into account in the operation of this system, consideration will be given to creating an informal interagency board to provide guidance on the overall functioning of the system.

Federal Law Enforcement Training Center

Center Funding Issues

The funding level for basic training has been included in the Center's appropriation for a number of years.

Question: If one considers the large number of projected new hires, is basic training funding adequate?

Answer: The budget request includes $9,423,000 in the Salaries and Expenses (S&E) account and $1,014,000 in the Violent Crime Reduction Trust Fund for basic training. This total funding of $10,437,000 will fund almost 10,000 students amounting to about 69,000 student-weeks or an average resident student population of 1,323. This is less than the participating agency projections that were submitted during the spring of 1995. Also, since the projections were submitted, there have been substantial FTE increases for several agencies, including the Immigration and Naturalization Service, Customs Service, Alcohol, Tobacco, and Firearms, and the Federal Protective Service. When all of this is included, the basic training funding is not adequate to fund 100%.

Question: What will the funding cover?

Answer: The funding covers the direct costs of basic training. This includes the program tuition and daily miscellaneous charges. The program tuition consists of the materials and supplies actually used to conduct the program, such as ammunition and targets for firearms training, gas and oil for driver training, and printed materials. The daily miscellaneous charges consist of services not included in the program tuition, such as classroom janitorial and utility costs, and bus transportation.

It is always difficult to project what training requirements will be in any given year. The Center attempts to do so in planning annual budgets.

Question: Could you give the Committee an idea of how accurate your projections are?

Answer: The FLETC's budget projections are based on participating organization input; therefore, our projections can be no more accurate than the data provided by these organizations. Essentially, the FLETC requires the participating

agencies to submit training projections annually. These projections are made during the spring and cover the upcoming fiscal year and five out years. Traditionally, the organization projections have been higher than what ultimately is trained. Because of this fact, the FLETC's budget request for FY 1997 is for approximately 90% of the total training requested by the participating agencies. The accuracy of our agency projections is also often affected by unanticipated Congressional and Administrative initiatives such as current initiatives to improve border security, White House security, and react to domestic terrorism.

Question: Have the downsizing efforts of the Federal Government impacted your projections?

Answer: The Center is not certain of the impact of current downsizing efforts. While it would seem logical that there would be a reduction, because of Administration and Congressional initiatives, particularly in border security, there does not seem to be a reduction. If anything, the workload is increasing. In FY 1994, the FLETC trained 5,393 basic students amounting to 32,609 student-weeks for an average resident student population (ARSP) of 627. The FY 1995 training was 7,998 basic students amounting to 56,751 student-weeks for 1,091 ARSP. The FY 1996 and FY 1997 basic training likely will continue to increase.

Question: How reliable are agency requests? If they cancel is adequate time given to the Center?

Answer: Annually, the FLETC performs a statistical analysis to show how well the participating agencies live up to their basic training projections. This is done using a five consecutive training year profile which gives the FLETC a real time indicator with which the basic training workload for the coming year can be developed. This data alone is not the deciding feature however, as other non-quantifiable influences are utilized to make the final decisions, but regardless, the results generally indicate that overall our agencies' projections are 80% reliable.

The FLETC trains law enforcement personnel from 72 participating agencies and 250 or more space available agencies; therefore, it is difficult to provide a definitive yes or no answer to the question of "adequate time given" when cancellations occur. However, it would be fair to say that, generally, agencies wait until the last minute to cancel programs that have been confirmed. This often makes it difficult to market and fill the vacated training slot. We realize that many times the factors resulting on cancellation are beyond the agencies' control. When that happens, we make every effort to reallocate the canceled class to reduce any unfilled requests from other agencies.

Question: Has the Center had to cancel scheduled classes? How often does this happen and what are the reasons?

Answer: The FLETC confirms training on a quarterly basis. Once a funded basic program is confirmed, the FLETC will rarely, if ever, cancel such a program.

If a funded basic program is canceled, it is normally due to some eventuality

affecting the customer agency such as a budget problem. Again, generally, the training year materializes something like the following: first quarter--a higher than usual cancellation profile exists overall due to factors associated with unsettled budget issues, such as continuing resolutions; second quarter--rarely will a program be canceled during this quarter; third quarter--sporadic cancellations will occur which are, for the most part, related to recruiting issues; and, fourth quarter--the FLETC will on the average see a lot of activity in this quarter. There will be cancellations and additions which will frequently offset one another. These cancellations are seldom initiated by the FLETC, but rather in response to customer agency requests.

Question: What do agencies do that have had training canceled?

Answer: As has been mentioned above, the FLETC will rarely cancel a funded basic training program. Should such an event take place, the FLETC will conscientiously attempt to work it back into the schedule at a later date if at all possible assuming the customer agency or agencies still need the training.

Crime Bill Trust Fund

The Center budget requests funding from the Crime Trust Fund for needs that would seem to be continuing requirements. The fund is not a continuing source of funding.

Question: Shouldn't these funds be in your base?

Answer: The FLETC is requesting the following funding from the Violent Crime Reduction Trust Fund in FY 1997.

- $1,014,000 and 5 FTE for basic training

- $800,000 and 2 FTE for Distance Learning/Computer Based Training

- $355,000 and 2 FTE for New Training Building Support

- $2,350,000 for Fiber Optics Installation

The first three included recurring FTE requirements and in past years would have been included in the base. The last item is phase one of a two phase project. After completion there will be a recurring maintenance requirement of about $400,000 per year.

Question: Funding is being requested for long term learning needs. What happens when Trust Fund monies run out?

Answer: If the funding for the recurring cost is not provided, the FLETC would be unable to support these services. In addition, the FLETC would be required to reduce or eliminate these programs impacting our ability to perform our mission.

Security Issues

Other agencies of Government are implementing security changes to facilities they occupy in view of the Oklahoma City bombing tragedy. The Center has two large facilities at Artesia, New Mexico and Glynco, Georgia, for which the Government already has a significant investment.

Question: Has FLETC assessed its needs against the threat of terrorist activities? If so, what steps have been taken and what further needs must be met?

Answer: A task force was formed to review the security of both of the FLETC centers immediately after the Oklahoma City bombing. During this review, the FLETC received a copy of a White House memo dated June, 1995, regarding the Upgrading of Security at Federal Facilities and additional tasking was assigned to the group to assess the FLETC's needs as a Class 4 facility. Recommendations and costs were developed.

Question: Have you looked at costs?

Answer: Yes. To implement the recommendations of the FLETC security review would cost approximately $3.2 million. A total of $600,000 from the FY 1995 Supplemental appropriation on antiterrorism has been devoted to this area, but no additional funds are available.

International Training -- State & Local Training

There appears to be a significant increase in International Training provided by the Center.

Question: What is the Center doing in this area?

Answer: In the first two quarters of FY 1995, eighty-two (82) international students were trained.

In the first two quarters of FY 1996, three hundred eighty-nine (389) international students were trained, a 365% increase. Training programs offered include International Banking and Money Laundering, International Financial Fraud, Executive Development Police Academy Managers, Dignitary Protection, Advanced Physical Security, Advanced Marine Law Investigations, Seaport Security/Antiterrorism, International Post Blast Investigations, Financial Investigations, and Management.

Question: What are the funding and people resources allocated for this training?

Answer: The current staff of the International Programs Division consists of 5 FTE: a Division Chief, GS-14; two Program Specialists, GS-13; and two Training Technicians, GS-7/8/9. The actual expenses of conducting training are reimbursed by

the foreign government or the State Department, through its Office of Antiterrorism Assistance, Freedom Support Act, or Support for Eastern European Democracies Act funds. Foreign agencies whose students attend FLETC programs on a space-available basis, pay all costs of their training. In the first two quarters of FY 1996, there were eight such students. To date, all administrative costs including compensation and benefits (approximately $300,000) for international training have been absorbed from the FLETC appropriation.

Question: Could you briefly outline the State and local training the Center is currently providing, as well as your future projections for State and local training?

Answer: The FLETC trains 3,000 - 4,000 State and local law enforcement officers, including approximately 700 Gang Resistance Education and Training (G.R.E.A.T.) officers annually, at Glynco, Artesia, and various export sites. Over 50 different programs are offered each year. Since the basic student demands consume virtually the Center's entire capacity, State and local training is being conducted at export sites around the country. Different state jurisdictions offer their law enforcement training facilities for this training. We anticipate that approximately the name number of state and local officers (3,000-4,000) will be trained annually for the next several years.

Base Funding

There is funding outlined in the budget request which indicates that the base is fully funded.

Question: Is the base fully funded?

Answer: Under the assumption that this question pertains to full time equivalents (FTE) the FLETC is not fully funded for the approved 466 direct FTE in FY 1996, due to the fact that we are paying LEAP without funding having been provided. There is an initiative in the FY 1997 President's budget to cover LEAP which will allow FLETC to fill the positions that have been left vacant to cover the shortfall LEAP created.

Question: How many positions (FTE) are unfilled?

Answer: Currently the FLETC has 13 positions unfilled because of lack of funds.

Question: What would it take to fill those positions?

Answer: The FLETC would need $300,000 to fill these positions for the remainder of FY 1996. This figure is calculated using one-half of a GS-11 Step 4 salary as the average and multiplying by the 13 vacant positions. We are using one-half because half the year is completed.

Question: Is the amount requested to maintain current levels accurate? What will this funding be applied to?

Answer: The amount provided for maintaining current levels is accurate. This funding will be used to cover inflationary increases in the cost of travel, contractual services, supplies, and equipment.

When President Clinton took office he issued Executive Order 12837 that reduced administrative costs, as well as personnel over a four year period. Fiscal year 1997 is the fourth year. For the record, could you provide the committee with a breakout of the following:

Question: The amount of savings by year, and where the reductions were applied.

Answer: Executive Order 12837 reduced administrative costs and Executive Order 12839 reduced FTE. The reductions associated with Executive Order 12837, by year, are as follows:

Fiscal Year	Reduction
1994	$586,000
1995	$617,000
1996	$646,000
1997	$1,098,000
Total	**$2,947,000**

The reductions were taken in object classes 21-26 (travel of persons; transportation of things; rent, communications and utilities; printing and reproduction; other services; and materials and supplies).

Question: The number of FTE saved as a result of the order, and where these reductions were applied.

Answer: The reductions associated with Executive Order 12839, by year, are as follows:

Fiscal Year	Reduction	FTE
1993	$210,000	5
1994	$346,000	7
1995	$401,000	7
Total	**$957,000**	**19**

The reductions in funds were taken in object classes 11 and 12 (compensation and benefits) and the FTE were reduced across the board in the FLETC's three budget activities (Law Enforcement Training, Plant Operations, and State and Local Training).

Bureau of Alcohol, Tobacco and Firearms

Firearms Issues

The Committee directed the Bureau to update and republish its book on firearms regulations.

Question: What is the status of the directive?

Answer: ATF P5300.4, Federal Firearms Regulations Reference Guide was published and distributed to approximately 190,000 Federal firearms licensees in October of 1995.

Question: What has the reaction to the publication been from the licensees?

Answer: Licensee reaction, although limited, has been positive. Licensees are happy to have an updated version of the law and regulations that includes the provisions of the Brady Handgun Violence Prevention Act, the Violent Crime Control and Law Enforcement Act and various smaller changes in the firearms area. From the inquiries we have received it is apparent that they are using the publication and find the question and answer section to be an easy reference guide.

The fee for federal firearms licences was increased two years ago. At that time ATF sugguested that the number of licensees would decline appreciably.

Question: How many licensees are there currently?

Answer: As of May 1, 1996, there is a total of 164,670 licensees.

Question: How does this compare with past years?

Answer: Since reaching a high point of 288,001 in 1993, the number of licensees has steadily declined. The principal factors for the decline are the Brady Handgun Prevention Act of 1993 provisions which increased the licensing fees and the Violent Crime Control and Law Enforcement Act of 1994 provisions adding additional licensing requirements, together with ATF's efforts to ensure compliance with existing licensing requirements.

Question: How many yearly requests are there? How many are approved? What are examples of why requests are disapproved?

Answer: In calendar year 1995, 37,053 license applications were received and 28,907 licenses were issued.

Examples of licenses not issued:

> If it is determined during a compliance inspection that an applicant is not "engaged in the business of selling firearms " the applicant will, in most cases, choose to withdraw their application.

> When an incomplete license application is received, ATF requests the missing information from the applicant. If the missing information is not subsequently supplied by the applicant, the application is considered abandoned.

> If the licensee cannot operate a firearms business at the premises location due to application of State or local laws, ATF is prohibited from issuing a license by the Violent Crime Control and Law Enforcement Act of 1994.

Question: The Violent Crime Control and Law Enforcement Act of 1994 requires that all Federal Firearms licensees certify their compliance with All State and local laws. How does this law impact ATF?

Answer: Prior to the Violent Crime Control and Law Enforcement Act of 1994 (the Act), ATF did not have the authority to deny an application or revoke a license solely on the basis of noncompliance with State and local laws. With the passage of the Act, ATF was required to condition issuance of a Federal firearms license on the certification, by an applicant, of compliance with State and local law.

Question: How do local zoning laws apply in the application process for a Federal firearms license?

Answer: The Violent Crime Control and Law Enforcement Act of 1994 requires that all FFLs certify their compliance with all State and local laws (including actively enforced zoning) in order to qualify for a FFL. ATF does not enforce local zoning laws. ATF makes inquiries, as necessary, to determine if a FFL has met requirements for licensing.

One of the major issues surrounding the firearms licensing issue deals with gun shows.

Question: What is the current law with regard to gun shows?

Answer: Generally, licensees must consummate their firearms sales only at their licensed premises. In 1986, the Gun Control Act was amended to permit licensees to carry on their business at gun shows in the State in which their licensed premises are located. While licensees may display their wares and take orders at other locations such as out-of-State gun shows, they may not consummate sales at such locations. To fill orders taken at such locations, they must deliver the firearms from their licensed premises.

Question: How does this apply to out-of-State gun shows?

Answer: Federal firearms licensees attending gun shows who are not licensed in the State of the gun show may acquire firearms from private individuals and other FFLs. They may display firearms and take orders to be filled from their licensed premises. However, all firearms displayed at the gun show must be returned to the dealer's premises for subsequent delivery to the purchaser, including purchases by other licensees. Licensees who sell firearms at gun shows outside their State of residence are engaging in the business away from their licensed premises, in violation of the Gun Control Act of 1968.

Good Old Boys Roundup

The media has given considerable attention to the Good Old Boys Roundup which has been attended by Federal, State and local law enforcement officers. The Treasury and Justice Departments have both issued extensive reports. ATF has gotten the most attention, but it is my understanding that agents from all Treasury Enforcement bureaus have participated in this event over the years.

Question: What is the status of the Treasury Inspector General investigation? What did it find?

Answer: The Department of the Treasury recently completed its investigation into the Good O' Boy Roundups. The IG found that certain acts of racism did occur during the latter years of the Roundups. However, the IG investigation did not reveal that any Federal agents performed racist acts (most of which took place in 1990, 1992 and 1995.) 125 current Treasury employees have attended one or more Roundups, including 61 current ATF employees. However, many of the persons attended only 1 Roundup and never witnessed any racist acts. Finally, the IG found no credible evidence to support allegations of criminal activity such as rape, prostitution or drug use at the Roundups.

Question: What is going to be done?

Answer: Within days of the IG completing it's investigation, ATF's Professional Review Board (PRB) reviewed all of the material on the individuals who attended the Good O' Boy Roundups. Although no ATF employees engaged in any racist or illegal conduct, the PRB was concerned with the poor judgment shown by 10 employees who witnessed racist activities and took insufficient action or returned to the Roundups in subsequent years. The PRB recommended that these employees receive discipline ranging from a caution to a four day suspension. Specifically, it recommended: 1 letter of caution; 4 admonishments; 1 reprimand; 3 one-day suspensions and 1 four-day suspension. Six final actions have been taken and 4 are pending.

These recommendations have been provided to the employees' supervisors who will make the final decisions concerning any discipline to be imposed. In addition, all of the individuals who were disciplined will receive special training in diversity and sensitivity and will be counselled on these issues.

In addition to addressing the conduct of individual employees, the Department

of Treasury issued a Policy Review Report which contained 15 policy recommendations to address the systemic issues raised by this matter. ATF along with the other Treasury law enforcement bureaus is working with the Department to implement these recommendations.

Question: How can ATF tolerate its agents attending such an event?

Answer: ATF has a zero tolerance policy for racist activities. As the IG concluded, for a number of years it appears that no racist activities occurred at the Roundups and many individuals who attended only went once and neither participated, witnessed nor had any knowledge of any racists activities. With respect to the employees who witnessed acts of racism, but took no action, appropriate discipline has been imposed or proposed. Moreover, ATF is working with the other Treasury law enforcement bureaus and the Department to implement the recommendations of the Policy Review Group to ensure that our agents fully understand what is expected of them, both on and off duty.

Compliance

Most of the discussion regarding ATF centers around firearms and other gun related issues. The Bureau is, however, responsible for many other issues.

Question: Could you briefly outline your relationship with all of the industries with which ATF regulates and interacts?

Answer: ATF has formed partnerships with a number of industry groups for a variety of purposes.

Institute of Makers of Explosives: ATF has always had a good relationship with IME. Recently this partnership was strengthened when in September, 1995 ATF hosted an International Explosives Symposium. This symposium including information on the identification of explosives and the rendering inert of materials used to make explosives. IME was an active participant in the symposium and is involved in proposed revisions to explosives regulations to offer less burden to the industry while continuing to provide public safety.

American Pyrotechnic Association: ATF has continued to strengthen its partnership with this organization, particularly on issues of mis-identified fireworks (safety issue) and on revising explosives regulations to reflect this industry as it exists today.

Fertilizer Institute: As a part of post Oklahoma efforts, ATF and the FI co-produced a safety and customer awareness videotape and poster for its members, including fertilizer distributors in the area of Olympic venues.

Gun Show Promoters: Some gunshows are a source of firearms for criminals. As a result, ATF initiated a meeting with a group of influential gun show promoters in Denver in May, 1995 to discuss the problem and look for solutions. This group has now formed a trade organization that will continue to work with ATF as we seek solutions to the problem.

National Associations of Auctioneers: ATF participated at this largest association of auctioneers national convention in July 1995 and addressed concerns that some auctioneers were not complying with GCA requirements and providing firearms to criminals. This partnership has continued and ATF meets regularly with leadership of this organization.

Alcoholic Beverage Industry: ATF has a long-standing working relationship with the Distilled Spirits Council of the United States, the Wine Institute, the National Association of Beverage Importers, the Beer Institute and other industry groups. ATF has started to work together with these groups so that ATF may be a center for industry information by providing access to a wide range of data, including graphic pictures of approved alcoholic beverage labels, through automated systems.

Personnel Issues

A suit was filed against ATF by African American Agents.

Question: What is the status of that suit?

Answer: On July 9, 1996, the court granted preliminary approval of the settlement reached by the parties. ATF will implement a number of systemic changes in its methods of hiring, recruiting and selecting persons for promotions. In addition, there will be changes in the appraisal and disciplinary systems. The agreement provides for $4.7 million in damages. Class members who wish to obtain a monetary award must submit a claim establishing entitlement to an award and complex formula is utilized for determining the proper amount of each such award. The agreement also provides for $1.2 million in attorney's fees, and up to an additional $150,000 over the life of the agreement for fees and costs related to implementation and monitoring. Any person who wishes to object to the proposal must file written objections with the court by August 21, 1996. A hearing is currently set for September 12, 1996 to rule on the objections.

Question: What is being done by ATF management to ensure that problems outlined by this suit, as well as, other personnel problems will not reoccur?

Answer: ATF has instituted a number of systemic changes and adopted a variety of programs to address the problems detailed in the class action lawsuit. To highlight just a few of these programs, the Professional Review Board (PRB) was established in August of 1995 to review allegations of non-bargaining unit employee misconduct that are the subject of Inspector General or Office of Inspection investigations. The Board is composed of five senior career managers with enforcement and non-enforcement backgrounds. It ensures that all such allegations are considered fairly and expeditiously and that discipline, when appropriate, is

administered consistently throughout the bureau. In addition, the EEO program was moved into the immediate Office of the Director, to ensure the highest level of accountability and responsibility for this critical program. ATF has also established the position of Ombudsman to provide an informal mechanism for resolving employee concerns; is about to embark on a pilot Alternative Dispute Resolution program in connection with its EEO complaints processing program.

In order to address the training issues raised by this suit, the Bureau has undertaken an effort to expand and improve the level of diversity training provided to employees. These efforts include the presentation by contract personnel of a diversity briefing for all Bureau headquarters personnel; the incorporation of three separate modules on diversity into the training provided for new Bureau supervisors; and the development and delivery of diversity modules in the basic training courses taught to new agents and inspectors.

Additionally, the Bureau has established Diversity Peer Groups, composed of representatives of the full spectrum of ATF employees these groups are tasked with identifying and addressing the specific concerns of various employee groups within the Bureau.

Finally, we continue to pursue efforts with a contractor to evaluate and establish career paths for agent personnel and ensure that all personnel are provided the training necessary to fully realize their potential.

Base Funding

There is funding outlined in the budget request which indicates that the base is fully funded.

Question: Is the base fully funded?

Answer: No.

Question: How many positions (FTE) are unfilled?

Answer: 258 FTEs authorized in FY 1996 can not be achieved. Therefore, ATF has reduced that level.

Question: What would it take to fill those positions?

Answer: Based on ATF's current cost model, it would take $42 million to fully fund these positions in the first fiscal year. This amount is in addition to the Bureau's present budget request for FY 1997.

Question: Is the amount requested to maintain current levels accurate? What will this funding be applied to?

Answer: The amount requested is the amount allowable to fund standard inflation.

When President Clinton took office he issued Executive Order 12837 that reduced administrative costs, as well as, personnel over a four year period. Fiscal year 1997 is the fourth year. For the record could you provide the committee with a breakout of the following:

Question: The amount of savings by year, and where the reductions were applied?

Answer: Accumulated savings resulting from Executive Order 12837, Administrative non-pay are as follows:

Reductions to Achieve Administrative Non-pay Savings (Dollars in Thousands)					
Major Object Class	**Enacted FY 1994**	**Enacted FY 1995**	**Enacted FY 1996**	**Proposed FY 1997**	**Total**
11 Personnel	0	0	0	0	0
12 Personnel Benefits	0	0	0	0	0
13 Former Benefits	0	0	0	0	0
21 Travel	(331)	(417)	(192)	(327)	(1,267)
22 Transportation of Things	(42)	(49)	(47)	(78)	(216)
23 Rents, Comm. & Util.	(662)	(488)	(548)	(933)	(2,631)
24 Printing	(53)	(55)	(58)	(100)	(266)
25 Other	(792)	(920)	(874)	(1,486)	(4,072)
26 Supplies	(249)	(313)	(628)	(1,067)	(2,257)
31 Equipment	0	0	0	0	0
42 Indemnity	0	0	0	0	0
Bureau Total	(2,129)	(2,242)	(2,347)	(3,991)	(10,709)
By Activity					
Regulatory Enforcement	(575)	(605)	(634)	(1,078)	(2,892)
Criminal Enforcement	(1,554)	(1,637)	(1,713)	(2,913)	(7,817)
Bureau Total	(2,129)	(2,242)	(2,347)	(3,991)	(10,709)

Question: The number of FTE saved as a result of the order, and where these reductions were applied?

Answer: Reductions resulting from Executive Order 12839 and the Workforce Restructuring Act since FY 1993 are: A reduction of 148 FTE and $4.3 million. The reductions were primarily taken from the Regulatory Alcohol program.

ATF Authorities and Jurisdictions

There has been discussion over the past twenty years about ATF jurisdiction and authorities, as well as the need to continue ATF in its present configuration.

Question: Could you outline the basic functions of ATF?

Answer: These functions are outlined in the document "ATF's Function and Role within the Department of the Treasury." (See pages 2 through 7 of the document.) This document was previously submitted to the Committee.

Question: Outline why ATF functions, particularly, criminal enforcement functions are in the Department of Treasury?

Answer: The reasons why ATF's functions are within the Department of the Treasury are discussed in the document "ATF's Functions and Role within the Department of the Treasury." (See pages 10 through 11 of the document.) This document was previously submitted to the Committee.

Question: Why should firearms and explosives jurisdiction remain in ATF?

Answer: The document "ATF's Function and Role within the Department of the Treasury" describes why firearms and explosives jurisdiction should remain in ATF. (See pages 8 through 9 of the document.) This document was previously submitted to the Committee.

Information Technology

Question: Information technology is the basis for agency operation and certainly the wave of the future. Could you outline the state of information technology at ATF and what the plans for the future are?

Answer:

The State of ATF's Information Technology:

Currently, the Bureau supports multiple function-driven, compartmentalized, law enforcement, revenue collection, research and analytical, and report generation information systems, which are segregated by divergent computer systems and technologies and which require an inordinate amount of manual intervention and information repetition to provide support to the Bureau's mission-driven activities and

operations. Much of the Bureau's primary mission-driven data remains encumbered in manually stored and retrieved filing systems or antiquated information systems which are more than fifteen years old and are in dire need of automation. These divergent manual and automated systems inhibit the Bureau's ability to provide timely, comprehensive source data, information products, and services to everyone from our employees to the public we serve.

Additionally, maintenance and querying of these systems require an inordinate investment of financial resources in the form of employee and contractor labor, equipment maintenance and system support which would be more effectively deployed via an integrated system. The consequence of a continued "dis-integrated" grouping of manual and automated information systems can be readily measured in time, dollars, service, support of Federal, State and local law enforcement agencies, service to legal industry members and less than comprehensive analytical products and services leading to inadequately informed decision processes -- be they prosecutions, regulations, or legislation.

The obsolescence of the technology infrastructure in the field can be further illustrated by the fact that the Bureau now uses over 1250 PC/XT workstations (nearly one third of the total workstation inventory). Purchased in the late 1980's, these workstations do not have the capability to support current operating systems and associated system software. As a result, implementation of current basic technology capabilities in areas such as user interface (i.e., Graphical User Interface (GUI), Windows, etc.), communications, and file access and manipulation cannot be considered. In addition, maintenance of the software installed on these workstations will become more difficult as newer versions cannot be implemented and the "older" versions will not be supported by the manufacturer.

As a consequence, ATF's field data collection and reporting capabilities are also fragmented and outdated. Currently, ATF personnel must search multiple systems to obtain needed investigative information. This often involves going to different terminals and using different sign on and inquiry procedures to obtain basic information. This information must be collected and reported on multiple different forms. Many "information queries" are performed by sending a fax or making a phone call to another area where the search is actually performed. This imposes a significant burden on the field. Not only must ATF operations personnel perform multiple searches for data, but training and maintaining knowledge (and hence data) on these systems requires agents and inspectors to learn and maintain proficiency on a wide variety of software systems. This also places a burden on the office called to run a search for someone else, and can create long delays in obtaining needed information.

In addition, ATF has a large amount of data that would be of value to field personnel but cannot be easily accessed. In that, time is of the essence in many instances, making fast delivery of accurate information essential. The current information system architecture cannot provide these capabilities. A new architecture must be implemented to meet ATF's needs.

ATF's Plans For The Future:

During the past year, ATF completed a major, Bureau-wide reorganization that has aligned the Bureau around a strategic plan. This plan, as one of its principal elements, consolidated the offices of Criminal and Regulatory Enforcement into a single functional entity. Also, three diverse ADP organizations within the Bureau were merged into a single support entity and restructured to directly support the strategic plan of the Bureau. This reorganization and consolidation of functions, combined with the outmoded and fractionated information systems currently in place within the Bureau, require that ATF re-engineer and rebuild its information systems infrastructure.

The Bureau submitted, in its FY 1997 budget request, a proposed infrastructure re-engineering which will provide ATF with integrated, Bureau-wide, state-of-the-art technology that will enable us to more efficiently support legal industry, revenue collection, investigative, scientific research, and legislative activities by building upon, significantly upgrading or replacing existing information resources.

This re-engineering proposal contemplates the extension of a uniform computer network throughout the Bureau (and the upgrading of the existing network systems) to provide:

- connectivity to all Bureau offices.
- inter-office document/information transfer capability.
- integration of existing information systems.
- automation of specified manual systems, including electronic fingerprint submittal as mandated by NCIC.
- core communications enhancements to support electronic imaging.
- connectivity to other Federal, State, and local systems.
- re-hosting of existing applications to dramatically decrease operating expenses.

The infrastructure re-engineering provides the requisite technology enhancements required to support the information systems which are proposed in ATF's strategic plan. If these core improvements are not accomplished, ATF will be unable to develop and support further mission support information systems or enhancements to existing systems.

This initiative proposes the replacement of technologically obsolete computer workstations, networks, communications, and software to meet the interface requirements of other Federal law enforcement systems which are presently being upgraded (NCIC 2000, CDN 2000, NLETS, IAFIS, etc.). Access to these systems is mandatory in order for ATF to perform its mission. At present, nearly 2/3 of the Bureau's existing workstation inventory does not meet the minimum hardware requirements of these upgraded networks.

Finally, the initiative contemplates network wide security enhancements commensurate with the increased access to Bureau data which will be required to meet the provisions and mandates of the Treasury Department Security Manual (TDP 71-10) and related Federal regulations.

Due to years of limited ADP systems funding, ATF has had to focus its resources on critical network infrastructure, field equipment and field support systems as they fail. This reactive focus has resulted in a direct loss of productivity attributable to network failures. However, at present rates, equipment is failing faster than ATF has resources to fix or replace it, making the field delivery system unable to meet the Bureau's requirements.

In FY 1995 ATF used its hardware resources to equip several Regulatory District offices with PC/LAN technology replacing 1980 WANG technology. There are 11 functional offices of the Bureau which continue to use WANG Technology. Some 40 additional ATF offices have no computer network capabilities at all. During FY 1995, ATF had to focus the remainder of its hardware resources on fixing and replacing failed Local Area Network (LAN) components throughout the United States. In FY 1995/1996 ATF will complete an overall ATF information technology master plan to bring its information systems in line with its strategic plans. This plan will define the data communications network and data processing equipment requirements, and guide individual criminal and regulatory enforcement program elements in meeting specific operational requirements. In FY 1997, ATF will conduct the Requirements Analysis for the field system, develop its core modules, and deploy the application, its supporting hardware and software, to one full field division/district for validation.

This initiative will provide the vehicle for ATF to conduct a comprehensive analysis and re-engineering of its information systems. Included in the cost estimates of each ADP related tactic is a Business Process Re-engineering Study and Alternatives Analysis which will guide the development of information systems which "fit" advanced technology to the new structure and strategic plan of the Bureau.

All of the initiatives in the FY 1997 Budget request require some form of field support. In past years, ATF's information architectures supplied field personnel with fixed workstations requiring agents and inspectors to go into the office to perform any activities associated with computer technology. This initiative recognizes that the core of ATF's operations take place "in the field" and as such, will equip field personnel with portable workstations so that they can perform their functions regardless of location (ATF anticipates implementation of "flexi-place" as well.)

This initiative is designed to build a single integrated field support system for all activities associated with Regulatory and Criminal Enforcement. This software system will focus on providing investigative and inspection support at the local level as well as automated information reporting to the national level.

The second component of this initiative is the communications networks required to support field operations. This initiative will look at the requirements of the Enforcement Architecture and engineer an appropriate solution. An initial study of the existing architecture and proposed modifications is being conducted for the Bureau by the National Security Agency, commencing in July of 1995. Requirements in the FY 1997 initiatives indicate that the Bureau's network must be capable of transmitting high volumes of information and electronic images around the country. This communications component covers all network/server requirements.

In order to meet ATF's information processing requirements and avoid the implementation of a system which would be outdated by its completion, an aggressive implementation plan is needed. Based on funding, the following major activities are planned to meet the ATF implementation time frames.

Major milestones for this initiative are as follows:

FY 1996

- o Complete Information/Network Architecture Design and Analyze Alternatives
- o Integration Contractor On-board/Detailed Implementation Plan
- o Analysis and Redesign of Field Reporting System

FY 1997

- o Complete Field System Requirements Analysis
- o Complete Development of Base Field System
- o Complete Development of 2 Field Subsystems
- o Implement Field System hardware and software in one Field Division/District
- o Train one Field Division/District
- o Upgrade gateways and circuits for one Field Division/District

FY 1998

- o Complete Development of 2 additional Field Subsystems
- o Complete installation of 40 small, 10 medium, 10 large, and 3 extra large sites
- o Train 35 sites
- o Upgrade 63 gateways and circuits
- o Add 15 Field Support Personnel

FY 1999

- o Train 35 sites
- o Install 40 small, 10 medium, and 10 large sites
- o Upgrade 60 gateways and circuits
- o Add 10 Field Support Personnel

FY 2000

- o Train 25 sites
- o Complete installation of 20 small, 10 medium, 5 large, and 3 extra large sites
- o Upgrade 38 gateways and circuits
- o Add 10 Field Support Personnel

FY 2001

- o Install 32 small, and 4 large sites
- o Upgrade 36 gateways and circuits

FY 2002

- o Install 30 small sites
- o Upgrade 30 gateways and circuits

The infrastructure re-engineering will place computer technology in the hands of Bureau employees "when they need it, where they need it." Users will no longer be required to return to their offices in order to access computer systems. As a result, agents and inspectors will be able to spend more time in the field performing investigations and inspections, with greater access to information than is currently available to them. The resultant productivity increase will be substantial.

Preliminary estimates indicate that implementation of the proposed infrastructure re-engineering will yield a 10% increase in productivity by eliminating the need to return to an ATF office to research or document activities related to license applications, trace requests, regulatory inspections and criminal investigations.

Multiple diverse information systems will be consolidated into a single uniform system. Related operating and maintenance costs for the outmoded systems will be re-directed into further systems development.

The development of software to support field operations and administration of the Bureau will be greatly simplified and hence produced at significantly lower costs. New computer hardware will support commercial-off-the-shelf (COTS) software which negates the requirement for custom developed software and allows for much faster deployment of productivity enhancing systems.

Implementation of uniform hardware and software throughout the Bureau will decrease overall expenses in the following areas: maintenance, software licensing, support, training, and software development. At the same time, this uniform hardware and software will greatly enhance the Bureau's ability to share information within the Bureau by placing information into fully compatible formats.

Additional budget offsets may be available through the implementation of "flexi-place" and/or reduced office space procurement since personnel would no longer be "tied" to the office. The Bureau can not support these types of initiatives with existing computer technology.

Financial Crimes Enforcement Network

Tribal Gaming

The subcommittee has been advised that last year nearly $40 billion was wagered at casinos located on American Indian reservations or which are owned and operated by tribal governments.

Question: What is FinCEN doing to deter customers from engaging in money laundering or tax evasion?

Answer: On February 23, 1996, FinCEN issued final regulations, which become effective on August 1, 1996, (see 61 FR 7054-7056) bringing tribal casinos under the same anti-money laundering controls of the Bank Secrecy Act (BSA) as

those in place for state-licensed casinos. As with most non-bank financial institutions, the Internal Revenue Service (IRS) is generally responsible for examining casinos for compliance with the BSA and has the authority to examine tribal casinos for such compliance as well.

Question: Do lessons learned with other gambling activities in states with casinos apply on reservations?

Answer: Yes, such lessons do apply. As FinCEN continues to close the door to traditional money laundering avenues, such as banks, criminals seek new ways to hide their illicit profits. Casinos are cash-intensive and many offer a wide variety of financial services, similar to banks, such as deposit and credit accounts, check cashing, wire transfers, and currency exchanges. Generally, the method of operation of casinos on tribal lands is no different than the method of operation of state licensed casinos. Without effective safeguards, tribal casinos may also be vulnerable to money laundering. Given the growth of the tribal casino industry in 1994 to approximately 120 casinos located in 16 states and approximately $39.5 billion in gross wagering, FinCEN determined that the time was right, with issuance of the February 1996 casino regulations, to require the industry to adopt money laundering controls.

Question: With the huge growth in gaming throughout the country, what is the level of time and effort that FinCEN is applying to these activities?

Answer: For the past several years, FinCEN has worked closely with state gaming regulators and representatives of the industry to ensure sensitivity to money laundering controls. FinCEN has also consulted closely with the tribal casino community, including representatives of tribal governments and the National Indian Gaming Association, to explain Treasury's anti-money laundering programs and to enlist their cooperation and recommendations.

As an example of this outreach, FinCEN sponsored a BSA Tribal Gaming Compliance Conference on April 4 - 5, 1996, in Orlando, Florida. The purpose of this conference was to provide specific, operationally oriented information to assist tribal casinos in their compliance with Treasury's anti-money laundering regulations. There were 250 conference attendees, representing tribal governments and casino management.

FinCEN will remain in close communication with the National Indian Gaming Association, and tribal governments and their representatives to ensure that tribal casinos are aware of these anti-money laundering requirements.

Support to State and Local Authorities

I suspect that federal agencies are the major customers of FinCEN, but it would seem that state and local police authorities would find information in your data banks extremely helpful.

Question: What support have you provided to state and local authorities?

Answer: State and local police authorities constitute a significant portion of FinCEN's customer base. FinCEN has in place a signed Memorandum of Understanding (MOU) which identifies a designated State/Local Coordinator for each state. These coordinator agencies serve as the clearinghouses for requests for FinCEN's services from all agencies within their respective states, as well as the contact point for policy matters. These agencies are generally either the State Office of the Attorney General or the State Police.

In an effort to facilitate state and local law enforcement access to FinCEN's services, FinCEN has been developing the Project Gateway. Gateway has two basic parts. First, it provides a "platform" designed to empower state coordinators and their personnel to conduct case research from their offices by providing on-line access to Treasury's Financial Database (FDB). This database is comprised of information obtained as a result of currency transaction reports (CTR) and other filings required by the Bank Secrecy Act. (See response to S 65 for a more detailed description.) Gateway also serves as a "national pointer system" to financial crimes by electronically capturing case data and automatically cross-comparing it with other state and Federal data already in the system, in order to identify instances where two or more agencies have an interest in the same investigative subject.

The Gateway program is a "Crime Bill" initiative. State Coordinators not only utilize Gateway, but actively participate and assist in its development and operation, making it a true partnership.

Question: How successful have your efforts been?

Answer: Within the network of FinCEN's designated state coordinators, more than 4,000 queries are generated per month. Gateway has been highly successful, particularly in Texas, Pennsylvania, Illinois, New York, Connecticut and Georgia. In addition, California, the District of Columbia, Alabama, Virginia, Maryland, Wisconsin, Ohio, Alaska, and New Jersey have been active participants. Some of these successes are related to whether or not anti-money laundering legislation exists at the state level.

FinCEN works closely with organizations like the National Association of Attorneys General (NAAG) to assist and encourage the enactment of such legislation. It also provides the forum whereby states with highly successful financial crimes enforcement programs can share their successes with their counterparts in other states.

Financial Crimes Enforcement Mission

FinCEN provides a unique repository for fiscal data. You receive and disseminate information to and from a wide range of interests.

Question: Could you briefly describe from where you receive your data?

Answer: FinCEN information is essentially derived from three sources: law enforcement data, commercial databases, and Bank Secrecy Act information. As a rule, law enforcement data provides very little financial information. Commercial

databases provide a wide range of asset and financial information including corporate ownership structures, real property holdings, bankruptcies, liens, UCC filings, and other information pertinent to the day-to-day activities in the business and personal spheres.

In addition, FinCEN maintains its own database, which is undergoing upgrading and enhancement. FinCEN's database was designed to be a central repository for all case-related information either provided by the requester or discovered in the course of our research. The FinCEN database lists the subjects of all of our requests (except for those involving classified, grand jury, or particularly sensitive investigations). The database includes the name of the requester, the type of case, the subjects and any identifying information on those subjects, such as date of birth, social security number, and previous addresses. With clear attention to the rules and laws relating to dissemination of law enforcement information, FinCEN actively seeks to promote cooperation among law enforcement entities who are working the same subjects and cases.

Question: What is this data?

Answer: Treasury's Financial Database (FDB) is made up of the four forms mandated by the Bank Secrecy Act. It includes Currency Transaction Reports (CTRs) - filed by banks on transactions of more than $10,000 in cash; Reports of International Transportation of Currency or Monetary Instruments (CMIRs) - filed by individuals or businesses when physically transporting or shipping/receiving more than $10,000 in either currency or bearer negotiable instruments; Currency Transactions Reports by Casinos (CTR-Cs) - similar to CTRs, but filed by casinos; Reports of Foreign Bank and Financial Accounts (FBARs) - filed by U.S. persons to report financial interest or signature authority or other authority over accounts in foreign countries if the aggregate value is over $10,000 at any time in the year. The CMIRs are US Customs forms; the CTRs and CTR-Cs are IRS forms; and the FBARs are Treasury Department forms. FinCEN can access all four through both the Financial Database segment of the Treasury Enforcement Communications System (TECS) or the IRS Currency and Banking Retrieval System (CBRS).

Question: How do you massage this information?

Answer: FinCEN is a financial intelligence support agency whose purpose is to receive a small amount of pertinent case information, assess the needs of the case agent/requester, and to add value from various sources to the original request. What value is added is determined by the direction and need of the investigation. In all cases, we attempt to tailor our work product and provide information that is not readily attainable from any other source. In addition to providing the information itself, FinCEN provides analytical support when needed and on cases that are particularly complex or voluminous. We provide highly trained FinCEN analysts as well as criminal investigators to support investigations utilizing both in-house resources, such as our databases, and external analysis of materials obtained during the on-site investigation.

Besides being able to query the FinCEN Database (see S 64 for additional

explanation) by name or identification numbers, we can also use DataQuery, a software system in TECS, to manipulate large volumes of BSA information. The data can be sorted and printed in any way necessary to best analyze the information on the forms. This system is usually used for any reactive case requests from law enforcement entities where many forms are located. We can provide a customized printout of the data based on what the requester is looking for and what is actually found in the database.

In addition, we have the FinCEN Artificial Intelligence Targeting system (FAIT), which looks at the CTRs, CTR-Cs, and CMIRs from the last three years using a unique system of rules (or clues) to identify possible proactive money-laundering targets. The FAIT system consolidates this BSA information in order to identify unusual patterns of financial activity. The FAIT system within its automated environment examines every single form, both individually as well as jointly with all other associated records. This allows the system to bring together complex webs of sophisticated money laundering networks which would otherwise go undetected. This system is able to massage and identify this data more effectively and efficiently than any human intervention. Analysts are then able to direct their efforts in more traditional investigative support pursuits.

Question: Who is the recipient of the analysis?

Answer: FinCEN currently supports law enforcement, regulatory, and intelligence-gathering entities and makes available to them the information that is appropriate to their mission and legally obtainable. At present, we are supporting in varying degrees approximately 170 state, local, federal, and international entities.

Agency Participation

When FinCEN began operations, there was some reluctance on the part of some agencies to not only not use it, but also a reluctance to provide information for your database. It is my understanding that some problems still exist.

Question: Is my information correct?

Answer: It was true in the early days of FinCEN that there was a perceptible reluctance to share sensitive investigative information with FinCEN. Today, FinCEN is constantly seeking other agency information to enhance our investigative support work product. Over the years, we have been successful in procuring several outside law enforcement databases to accomplish this task. We are most proud of our ability to review and disseminate, with their approval, certain DEA files. This has been a keystone of our efforts in narcotics-related case support and money laundering.

Question: What kind of participation are you getting?

Answer: Although some law enforcement and intelligence agencies are restricted by regulation and law from generally sharing their database information, support to FinCEN is provided in other significant ways. One example is the placement of long-term detailees at FinCEN to perform analytical functions and act as

liaison with other FinCEN requesters in the pursuit of their case requirements. Detailees from other agencies also add valuable case information which is incorporated into FinCEN's database. FinCEN also provides analytical expertise and training to short-term detailees who are placed at FinCEN to accomplish specific case work for their own agency.

In order to enhance the participation of other agencies with FinCEN, we have instituted a proactive and ongoing outreach program. The main focus of this program is to enhance the avenues of communication between FinCEN and the enforcement bureaus within Treasury as well as the broader enforcement community. FinCEN personnel have visited several cities and spoken to the Agents in Charge of the various agencies. This effort is designed to ensure that FinCEN is meeting the ongoing needs of the investigative agencies, and to update these agencies on FinCEN's capabilities.

Question: Is that participation a true partnership, or only one way?

Answer: Within the limits of each agency's rules and regulations, we feel that all our requesters perform in the role of FinCEN partners.

Money Laundering

As the problem of money laundering continues to remain evasive in terms of amounts and varying degrees of sophistication, it is apparent that an effective anti-money laundering program has to go beyond our borders.

Question: What is FinCEN's involvement in addressing money laundering on a global basis?

Answer: FinCEN is a key component of the U.S. international strategy to combat organized crime. The Department of the Treasury has designated FinCEN as one of the primary agencies to establish, oversee and implement policies to prevent and detect money laundering, serving as the link between law enforcement, financial and regulatory communities.

On the international level, this translates into providing money laundering intelligence and investigative support; assisting in the creation of FinCEN-type organizations worldwide, including co-sponsorship with Belgium of the Egmont Group of Counter-Money Laundering Organizations; providing expertise and personnel in support of Treasury's lead role in the Asia-Pacific Economic Council, the Financial Action Task Force (FATF), the Caribbean Financial Action Task Force (CFATF), bilateral consultations on money laundering issues with key financial partners, and presidential initiatives (PDD-42); supporting State and Justice Department counter-money laundering programs and initiatives; providing leadership and resources to the development and implementation of the Summit of the Americas Counter-Money Laundering Action Plan; and working closely with the International Criminal Police Organization (Interpol) on all aspects of money laundering and financial crime, including co-sponsorship of the annual Working Group on Financial Records Analysis

and support for an ongoing assessment of money laundering in East Europe and the former Soviet Union.

Question: What is the value of those efforts to the taxpayer?

Answer: Globalization of money laundering associated with organized crime and the drug cartels has paralleled globalization of the world's financial systems. The only effective way to counter the activities of international criminal enterprise is through implementation of a global counter-money laundering strategy based on common legal, legislative and law enforcement efforts. In its international activities, FinCEN draws upon its experience in domestic law enforcement support and counter-money laundering policy development to contribute in significant ways to the worldwide creation of common methods of information sharing, investigative support, training and technical assistance.

In addition, the federal law enforcement cases involving international organized crime that FinCEN supports frequently spill over into multiple national jurisdictions and the web of global financial services. The only way we can adequately assist our federal law enforcement counterparts in the following the trail of the multinational money launderer is through linkages with multinational agreements such the G-7 Financial Action Task Forces and FinCEN-type organizations worldwide.

FinCEN's involvement in such efforts enhances domestic U.S. efforts to prevent, detect and prosecute money laundering and other financial crime. U.S. tax dollars are thus leveraged internationally to increase the effectiveness of domestic law enforcement counter-money laundering programs.

Office of Financial Enforcement

FinCEN was given the resources and functions of the Office of Financial Enforcement in 1995.

Question: How have you reconciled the functions of this office with FinCEN's underlying mission?

Answer: It became clear during the 1993 Treasury money laundering review that the functions of OFE could be performed far more effectively as part of a single cost-effective compliance system. By mid-1994, OFE and FinCEN were merged, and by December reorganized as one anti-money laundering entity. The new FinCEN administers the BSA and has strengthened its traditional analytical responsibilities. The redesign melds the new mix of regulatory, intelligence, and enforcement missions. This "re-engineering" permits information and policy to be merged and to affect one another in a more productive way to effectively support Treasury's support to law enforcement and money laundering strategies.

Question: Is the funding for OFE part of your base?

Answer: 12 FTE positions were transferred but only $0.3 million in funding was approved for the merger. This required FinCEN to absorb $0.9 million in unfunded costs.

Base Funding

There is funding outlined in the budget request which indicates that the base is fully funded.

Question: Is the base fully funded?

Answer: No. Funds for FinCEN's base operations have been eroded over the last few fiscal years with fixed costs increasing on an average of 8 percent while economic indicators have averaged between two to three percent. FinCEN has had to absorb approximately five percent of these costs annually. Even with streamlining operations and other management efficiencies, this and other erosions to our base restrains some efforts. Our ability to continue to seek technological advances to ensure that our systems have the capacity, speed, and sophistication to address the intricacies of changing financial crime patterns encountered by law enforcement may be threatened.

Question: How many positions (FTE) are unfilled?

Answer: FinCEN expects to begin FY 1997 with 12 FTE positions unfilled.

Question: What would it take to fill those positions?

Answer: FinCEN would need a total increase of $1.2 million to support 12 FTE positions.

Question: Is the amount requested to maintain current levels accurate? What will this funding be applied to?

Answer: The overall increase of $559,000 reflects an inflation factor of 2.7 percent for most categories. Since support costs have increased an average of 8 percent, the proposed increase is not sufficient. This is more than offset by Executive Order 12837 that required an administrative cost reduction of $598,000 in FY 1997.

When President Clinton took office he issued Executive Order 12837 that reduced administrative costs, as well as personnel over a four year period. Fiscal Year 1997 is the fourth year. For the record could you provide the committee with a breakout of the following:

Question: The amount of savings by year, and where the reductions were applied.

Answer: Executive Order 12837 requires that agencies reduce administrative costs by not less than fourteen percent between 1994 and 1997. The reductions mandated for FinCEN and how they were applied follow:

($000)				
Object Class	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**
Travel	24	27	29	0
Transportation of Things	1	2	3	0
Rent to others	2	0	0	0
Communication	13	4	0	0
Printing	4	0	0	0
Other services	251	277	288	0
Supplies	24	25	26	200
Equipment	0	0	0	398
Total Reduction	**319**	**335**	**346**	**598**

Question: The number of FTEs saved as a result of the order, and where these reductions were applied.

Answer: Executive Order 12837 was initiated to reduce administrative costs within the Executive Branch. FinCEN has been able to absorb these mandated administrative reductions without a decrease to its FTEs.

United States Customs Service

Fiscal Year 1996 ONDCP Supplemental

The President submitted a supplemental request to the Congress on April 12 which calls for additional Department of Defense funds to be used in anti-drug efforts. The funds are proposed to be transferred to the Office of National Drug Control Policy for distribution. Customs is slated to receive some of the proposed funds.

Question: Could you outline your understanding of this request?

Answer: Our understanding is that the supplemental appropriation would provide additional resource support in several areas to further our efforts to stop the infiltration of illegal drugs into the U.S. The resources available would provide for:

- $98 million to upgrade two excess Navy P-3B aircraft to patrol both the air bridge and the transit zone;
- $7 million provide additional support for Operation Gateway;
- $6 million to place non-intrusive inspection devices along the Southwest border; primarily truck x-ray systems.

Question: How long would it take these resources to be brought on line if the request is approved?

Answer: Once funds are provided to Customs, it will take approximately six months to award the contract for the P-3B upgrades. One aircraft will be delivered within one year following the contract award with the second aircraft delivered a year later. The award of the contract for truck x-ray systems is expected in September 1996. This contract may be modified once funds are made available for additional units. Delivery of the first unit would be approximately one year after award with the second unit two years after award.

Budget Trends

The Immigration and Naturalization Service has received significant increases in both inspections and border patrol agents in recent years. The fiscal year 1997 budget also requests a healthy increase for border patrol personnel. I assume most of these resources have been directed at the southwest border.

Question: What has been your work situation with INS on the border? Do you still man the lanes at border crossings at a fifty/fifty ratio?

Answer: The work situation between INS and Customs on the Southwest Border is one marked by improving cooperation. The agencies established Port Quality Improvement Committees (PQICs) at five southern border ports in 1994. The PQICs are responsible for coordination of shift scheduling and special enforcement operations, and for developing joint operations. Fifty/fifty staffing of primary inspection lanes is still a goal of the two agencies. INS is not able to meet this goal in most locations during busy periods. They are hiring an additional 587 inspectors during the current fiscal year. Most of these new hires will be assigned to the Southwest Border, allowing INS to meet its goal of staffing half of the lanes during peak traffic periods.

Question: Are there cooperative efforts between Customs and the INS?

Answer: Yes. During the summer of 1995, the agencies along with the Animal and Plant Health Inspection Service and the Bureau of Consular Affairs of the Department of State established work teams to develop recommendations on improving primary passenger processing at both the land borders and commercial airports. This project is being done under the auspices of the National Performance Review. Three ports on the Southern Border are testing the recommendations and determining their effect on mission effectiveness and facilitation.

At our request, INS has provided us with a distribution plan for the 587 inspection personnel they will be hiring during FY 1996. Customs is providing additional temporary instructors to ensure that the new INS inspectors receive cross-designation training prior to their arrival at the ports of entry. We will also be meeting to discuss our hiring initiatives requested for FY 1997 to ensure that allocation of resources has the maximum impact for achieving our respective missions.

Question: Do you have any concerns in this area?

Answer: Yes. It is our hope that as many of the 587 personnel as possible will be inspectors rather than support personnel. We are also concerned that the maximum commitment be made to primary processing rather than to secondary functions, including document processing and fee collection. Another issue is the fact that the new inspectors are initially receiving an abbreviated training program that will not include firearms training and qualification. Assigning unarmed inspectors to land border primary creates concerns over officer safety and the question of where backup will come from in the case of a violent confrontation.

Customs Reorganization

Customs has been undergoing a significant reorganization. I believe October 1st of this past year was the effective date of the significant changes.

Question: What has Customs done with regard to reorganization? What other actions are intended?

Answer: Customs has taken the following actions:

- Restructured Headquarters and reduced the number of Headquarters full-time equivalent positions by 321 since April 1993. Customs will continue to explore opportunities to achieve further reductions at Headquarters to reduce management overhead and reinvest in front-line positions.

- Eliminated regions and districts, establishing 20 Customs Management Centers. This action eliminated one management layer and created an organizational environment intended to be less command and control. Most operational communications now go directly between HQ and the ports and major ports now have much more budget discretion than existed previously.

- Trained over 1000 Customs personnel in business process management (BPM) techniques. The agency used this training to rethink Customs major mission processes of trade compliance, passengers, and outbound. In the trade compliance process, we have developed a broad plan for making major changes in how we do business, moving from a transaction by transaction focus toward an account focus. The plan calls for implementing and supporting the Automated Commercial Environment by FY 1999. BPM techniques were also used by Customs, INS, Agriculture and the State Department to develop a plan for improving primary passenger processing at international airports and land border ports.

- Introduced the concepts of strategic problem solving techniques to the organization, and began training and application. The first application

was to address the problem of port runners at Southwest Border ports. Port runner incidents have declined from 70 per month at the beginning of calendar year 1995 to 27 in March 1996.

- Established a partnership agreement with the National Treasury Employees Union intended to address a previously adversarial labor/management relationship and establish the basis for proceeding toward creating the workplace conceived in the reorganization report. The partnership provided the basis for implementing an innovative reinvestment/placement program that placed 93 employees in front-line positions as part of the reorganization process. Customs will be using business process management techniques to streamline our processes and identify additional reinvestment opportunities.

- Initiated an internal management study of the Office of Finance intended to develop a management plan to address longstanding performance problems in that office. A multi-faceted plan was developed and is being implemented. While much work needs to be done, Customs is making progress in terms of its financial condition. For the first time, the Treasury Inspector General gave Customs a qualified opinion on our FY 1995 financial statements.

Question: What has been the employee reaction?

Answer: We are now in the process of surveying employees to obtain their reactions to the current work environment. This is the first extensive survey of the Customs workforce and will provide a baseline of data with which we can work.

It is important to recognize that we, like many public and private institutions, are going through tremendous changes and that the change process will require long term effort. While we are doing extensive workforce training in BPM and problem solving methodologies and are also giving priority attention to improving our internal and external communications efforts, we know that our employees have many questions about many of the concepts we are instituting.

The General Accounting Office, testifying about the reorganization effort in January 1995, said that Customs' change process will take 5-10 years. Our field reorganization took effect only 7 months ago.

Question: What has been the reaction of your customers--the trade community?

Answer: Overall, the reaction of the trade community has been quite positive. We solicited input from our customers during the reorganization study, and they were supportive of the direction we were taking. Under our reorganization principles, we are intent on improving our partnerships with our customers to improve our mission accomplishments. Further, through implementation of BPM methods, we are working extensively with the trade community to fashion strategies that meet their needs and

enable us to accomplish our mission. There are extensive consultations with the business community as part of each of our business process redesign efforts. Further, we are committed to measuring ourselves in terms of customer satisfaction. To this end, we are working with the American Association of Exporters and Importers in a survey of their membership which will provide us with their perceptions of the overall working relationship with the Customs Service.

Trade Compliance

Commissioner, in your review of the reorganization plan you mentioned that the most complex changes will be in Trade Compliance.

Question: Could you please explain what you are doing and how these proposals will differ from current practices?

Answer: The following represents our description of the Trade Compliance Process, along with the organizational changes that will occur as a result of our implementation of this plan.

TRADE COMPLIANCE PROCESS

I. Introduction

In recognition of its importance to the Customs Service and to the United States because of the continuing growth in world trade, two significant actions were taken by Customs. The Trade Compliance Process (Cargo in) was assigned a process owner (July 1994) prior to the issuance of the final reorganization report and the subsequent assignment of process owners to the other core and mission support processes. Secondly, the Customs Service created, as part of its October 1995 reorganization, the Office of Strategic Trade (OST) to address systemic trade enforcement issues.

Subsequent to the selection of a Trade Compliance Process Owner, and through Business Process Improvement Analysis, it was determined that the Trade Compliance Process required re-engineering in order to meet the future needs of the United States. This re-engineering initiative began with customer surveys to determine the true needs of the Trade, Customs, and the public. As a result, Customs is in the process of changing the way its work is performed. Working with the trade community, it is testing an account based approach instead of a transaction based approach to dealing with importers and their merchandise. Supporting this redesigned process is the development of the Automated Commercial Environment (ACE), which will allow the Customs Service to meet the challenges of the twenty-first century through a modern, more integrated, and user friendly automated system. It will replace the current Automated Commercial System (ACS), which is reaching the limits of its capabilities.

Additionally, the Offices of Strategic Trade (OST), Field Operations and Investigations, have developed a comprehensive Trade Enforcement Strategy. It focuses on but is not limited to eight primary focus industries that are important to the economy of the United States. To establish a baseline and to measure compliance in a systematic manner, a compliance measurement program has been implemented. For Fiscal Year 1995, the compliance rate for all imports was 78.6% (the compliance rate is an estimate of the percentage of all import entries that contain no discrepancies in tariff classification, country of origin, tariff calculation, and other requirements). Revenue compliance was over 99% on duties of $20.4 billion collected. Through informed compliance initiatives and targeted enforcement, when necessary, Customs will work to attain its goal of maximizing compliance and facilitating the flow of complying cargo.

Why is this enormous change necessary? All indications point to the U.S. going through a period of unprecedented growth in world trade, increased trade complexity, and increased responsibility for the Customs Service. Over the next five years, the value of trade imports will double, workload will increase significantly, new trade agreements are anticipated, and the role of Customs will continue to increase as the global trading market becomes more interdependent. Without a new, integrated, and user friendly automated system and an account based approach, Customs will find it very difficult to deal effectively with its enforcement responsibilities and to maintain a high level of customer service.

II. Future Environment of the Trade Compliance Process

The Customs strategy for achieving the objectives related to trade compliance is being developed with an understanding of the wide spectrum of factors that will effectively establish the environment. These include:

- Workload Challenge: From the period 1995 to the year 2000, it is projected that duty collected will increase from $ 20.4 billion to $30.5 billion annually, and the volume of trade between the United States and other countries will increase from $761 billion to $1.4 trillion a year. This increase in trade will result in an estimated increase in commercial entries processed by Customs from 13.1 million to 20.6 million annually over the same period. Resources dedicated to this process are expected to remain static. New techniques must be employed to cope effectively with the projected workload growth.

- Modernization Act: The Modernization Act clearly assigns Customs the new responsibility of defining and communicating its requirements to the trade community in a manner that increases compliance with cargo entry requirements. This responsibility is referenced in the Modernization Act as "informed compliance." In return the Act requires the trade community to act with "reasonable care" in complying with those requirements. These and other changes of the Modernization Act will require that Customs rewrite 75 percent of its current regulations.

- Trade Complexity: Importing and exporting is becoming more complex as changes occur in the international trade arena. As a result of NAFTA , GATT and other trade agreements, trade is becoming more complex. This complexity causes problems for importers and its is Customs role under the Modernization Act to effectively guide importers so that they can comply with the import requirements.

- Trade Compliance: Customs has identified baseline compliance data for all imports, eight primary focus industries, revenue, and other selected categories. It will work to improve or maintain these compliance levels. Now that Customs has this data, it will engender a fuller discussion on trade priorities with its customers and stakeholders.

- Fiscal Responsibility: Although the Trade Compliance process is at a level of over 99%, the revenue gap is still an estimated $135 million a year. At the current compliance rate, the revenue gap would be an estimated $204 million in the year 2000. Due to this, its responsibility to comply with the Chief Financial Officers Act, and deficit reduction initiatives, Customs will focus a great deal of attention over the next several years to close this gap and to improve its accounting systems. The support of the Finance process by the Trade Compliance Process is integral to this effort.

III. General Goal and Objectives of the Trade Compliance Process

The goal and objectives of the Trade Compliance Process are used in the development of the Customs annual plan. The annual plan initiatives must relate to one of the objectives, which in turn are supportive of the goal. To assess the success of the initiatives, Customs has identified an initial set of prototype measures. Further refinement of these measures is anticipated as more experience is gained in capturing and analyzing the data.

Maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo.		
Objectives	Strategies/Targets for FY96-98	Strategies/Targets for FY99-01
A. Implement programmatic changes consistent with the Modernization Act and implement the Automated Commercial Environment (ACE).	1. Implement electronic reconciliation process 2. Automate duty drawback and protest provisions 3. Test remote entry filing 4. Revise Customshouse broker and carrier regulations and automate relevant sections. 5. Prototype importer account approach with 20 accounts. 6. Prototype carrier accounts.	1. Fully implement ACE 2. Expand importer accounts to top 350 in primary focus industries. 3. Fully implement record keeping requirements contained within the Modernization Act.
B. Foster Informed Compliance among the importing community.	1. Raise compliance levels in primary focus industries. 2. Establish, maintain, and expand business account relationships. 3. Develop better analysis tools. 4. Initiate and expand compliance assessments of primary focus industry importers. 5. Develop an electronic reference center 6. Identify various formats to deliver information to the trade uniformly. 7. Maintain a comprehensive Compliance Measurement Program.	
C. Select Responses to non-compliance which are commensurate with the nature, extent, and impact of that non-compliance and pursue responses designed to both remedy past non-compliance and prevent its reoccurrence.	1. Implement a billing approach for technical violations of Customs regulations and laws in Fines, Penalties and Forfeitures (FP&F). 2. Assess and prioritize non-compliance problems and deploy resources accordingly. 3. Create a single integrated targeting system. 4. Prototype a streamlined examination and data review process in Seattle.	1. Implement and administrative probation program in FP&F. 2. Develop an account based approach to FP&F. 3. Develop a rules based evaluation tool for FP&F 4. Continue to refine targeting system. 5. Continue to assess and prioritize non-compliance issues and adjust to address them. 6. Continue to refine compliance measurement program.
D. Ensure the accurate recording and accounting for financial aspects of the trade compliance process to satisfy all the requirements of the Chief Financial Officers Act of 1990.	1. Implement a prototype of Importer Activity Summary Statement at Detroit and Laredo for trucks. 2. Prototype an accounts receivable subsidiary system for selected Trade Compliance debts in Seattle.	1. As part of ACE implement: a. an automated surety interface. b. an automated, integrated, accounts receivable subsidiary system. c. expand Automated Clearing House capabilities to cover all deposit/refund transactions. d. develop improved automated audit trails e. automated tracking of bond obligations.
E. Enhance Information gathering, communications, and outreach.	1. Regularly track customer perceptions using various forums. 2. Coordinate with other agencies to consolidate requirements and eliminate unnecessary requirements. 3. Achieve more uniformity in practices. 4. Establish Account Manager to ensure uniformity, provide informed compliance, meet customer needs and ensure customer satisfaction. 5. Involve all Customs elements in the development of the Trade Enforcement Plan.	
F. International Strategy		

For a more complete explanation of the chart the following sections are provided.

A. IMPLEMENT PROGRAMMATIC CHANGES CONSISTENT WITH THE MODERNIZATION ACT AND IMPLEMENT THE AUTOMATED COMMERCIAL ENVIRONMENT (ACE).

Within the framework of the shared responsibility provisions of the Modernization Act and the Customs-account business relationship, Customs will educate and inform its accounts of statutory and regulatory requirements, assist accounts to develop and implement mutually beneficial strategies to achieve high levels of compliance in account activities, and work in cooperation with accounts to address and resolve non-compliance issues and problems that may arise.

Account activities will be consistently analyzed at industry, account, and transaction levels to identify trends, patterns and anomalies which represent potential non-compliance problems. Potential non-compliance activities will be targeted for verification reviews at both account and transaction levels. Standardized verification and release procedures will promote uniform, expeditious treatment of account activities, with the minimum intrusion necessary to validate compliance, detect trade violations and interdict contraband.

To address these issues the following activities are in the process of implementation or contemplated:

- Implement reconciliation, an electronic process which provides the importer with the capability of providing undetermined entry summary information, other than that relating to admissibility, to Customs at a designated later time. Implementation targets are: FY 1996: second reconciliation prototype covering anti-dumping and countervailing duty transactions, FY 1997: third prototype, which is part of the National Customs Automation Project (NCAP), will cover value, classification, NAFTA and tariff-rate quota with automated support from ACE, FY 1998: Evaluate and finalize the third reconciliation prototype. Implement the full reconciliation operation upon completion of the ACE system design projected for October 1998.

- Automate both the Duty Drawback and Protest provisions.

- Expand remote location filing which, through electronic transmission of all data required by Customs and electronic payment of duties, taxes, and fees, provides for the examination and release of cargo at a location different from the location of summary data review and payment. Expand the remote process test to additional importers in 1996, with a goal of national implementation in concert with ACE implementation.

- Make automated changes consistent with the revised broker and carrier regulations.

- Move away from individual transaction processing and toward account-based decisions to ensure that Customs views account activities in the context of

overall account compliance, and that the importing community is adhering to the reasonable care provisions of the Modernization Act. We will begin with 20 accounts in FY 1996 and expand to the top 350 in the primary focus industries by 1999. We will also expand to carrier accounts in FY 1997.

- Implement the Automated Commercial Environment, including an account based processing approach, an integrated targeting system, an importer activity summary statement, a new import declaration, a Data Warehouse of key information available for analysis, and a Reference Center of information available electronically to Customs, other government agencies, and the trade. Full implementation is planned for October 1998.

B. FOSTER INFORMED COMPLIANCE AMONG THE IMPORTING COMMUNITY.

The Modernization Act establishes a requirement for Customs to inform the importing public of the requirements it must meet in order to successfully complete an import transaction. The Act recognizes the increasing complexity of the import process as new bilateral and multilateral trade agreements are ratified and new legislation is passed. It also recognizes that once the importer had been provided with the "answers" to successfully complete and import transaction, it is the importers responsibility to exercise reasonable care to comply. This is a new relationship that replaces the traditional adversarial one. Here are some of the key initiatives in the process of implementation or planned:

- Pursue a nationally coordinated effort to raise compliance levels in primary focus industries and among low performers in strategically sensitive commodities.

- Establish, maintain and expand business relationships with accounts in the trade community which support informed compliance, increase customer service and provide a national view of accounts' trade compliance activity.

- Develop better analytical tools such as the trend analysis prototype to monitor significant industry trends and identify potential areas of non-compliance.

- Expand compliance assessments to cover the top 1000 importers with primary focus industries to identify those with reliable internal controls allowing Customs to reduce levels of examinations that are both costly and time consuming. We will initiate 150 compliance assessment teams in FY 1996 with the remainder initiated before 2001.

- Work more closely with domestic interests to better identify potential threats in primary focus industries and trade priority areas. Account Managers will also work closely with their accounts in this area.

- Through an electronic Reference Center, increase availability of information for both Customs and the trade.

- Identify Customs wide for Outreach documentation, videos, and conferences to achieve national uniformity of information delivered to the trade.

C. SELECT RESPONSES TO NON-COMPLIANCE WHICH ARE COMMENSURATE WITH THE NATURE, EXTENT AND IMPACT OF THAT NON-COMPLIANCE AND PURSUE RESPONSES DESIGNED TO BOTH REMEDY PAST NON-COMPLIANCE AND PREVENT ITS REOCCURRENCE.

Non-compliance will be evaluated both in the context of the involved account's overall compliance history, and in terms of the nature, scope and impact of the non-compliance. Non-enforcement actions, such as increased outreach, education, and counseling of the involved account will be employed to address isolated problems or non-compliance with limited impact. Enforcement actions, such as seizures, investigations, and penalties will be reserved for significant trade violations having extensive impact on strategic industries and trade issues, the public welfare, and protection of the revenue. Both non-enforcement and enforcement responses to non-compliance will be designed to both remedy past violations and facilitate future compliance.

To further this approach, the following actions are being instituted or are planned:

- Implement a new approach to the fines, penalties and forfeiture program which includes:

  Moving minor "technical" violation penalties out of the current FP&F arena and into a business billing program, beginning with the Seattle prototype in FY 1996. Development and implementation of an "administrative probation program" within the penalty process, which encourages future compliance and cooperation from corporations. This will include the development of a regulatory package by 1999. Using the account based approach within the ACE system to identify the scope of noncompliance on an account basis, rather than at the transaction by transaction level, both for enforcement actions and subsequent penalty actions (October 1998). Development and implementation of rules-based evaluation tools within ACE which perform limited validation of discrepant findings, recommends actions related to cargo transactions, and screens violations by significance, thereby focusing resources on high priority issues and away from lesser concerns (October 1998).

- Measure compliance and use the results to set the scope of future monitoring. Assess and prioritize the nature, extent and impact of non-compliance and deploy resources accordingly.

- Replace the existing stand-alone targeting systems with a single integrated, comprehensive targeting system in FY 1998.

- Improve the efficiency of verifications through better targeting of non-compliance and ensuring that verifications conducted are commensurate with the nature of the non-compliance. Eliminate duplicate examinations and data review. Develop uniform, standardized and automated verification procedures and systems, beginning with the Seattle Trade Compliance Prototype in FY 1996.

D. ENSURE THE ACCURATE RECORDING AND ACCOUNTING FOR ALL FINANCIAL ASPECTS OF THE TRADE COMPLIANCE PROCESS, TO INCLUDE MEETING ALL THE REQUIREMENTS OF THE CHIEF FINANCIAL OFFICERS ACT OF 1990.

All financial aspects of the Trade Compliance Process will be recorded and reconciled. Automated financial systems will enhance financial transactions between Customs and its accounts, and improve Customs ability to meet statutory financial reporting requirements and produce auditable financial statements. To accomplish this goal, the following actions are being instituted or are planned:

- Implement the Importer Activity Summary Statement to include processes for both periodic and summary statements. This will help incorporate the account based concept into Customs processing (January 1997 - Automated Prototype in Detroit and Laredo (trucks only), October 1998, - implemented as part of ACE).

- Implement an automated surety interface. This interface will allow various sureties to send and receive electronic information relating to transactions they are guaranteeing. This will allow for automated bonds and the sureties to become involved in encouraging payment for overdue amounts. Also plans are underway to efficiently manage bond sufficiency through electronic tracking of bond obligations (October 1998 - implemented as part of ACE).

- Record all Trade Compliance related debts owed to Customs in an automated, integrated accounts receivable subsidiary system. This will improve Customs ability to manage and report these receivables and aid in debt collection efforts. (July 1996 - automated prototype in Seattle - 7 regional accounts, October 1998- implemented as part of ACE).

- Expand the Automated Clearing House (ACH) processing capabilities to include all Customs deposit/refund transactions (October 1998 - implemented as part of ACE).

- Develop improved audit trails in automated systems. This will allow all transactions to be tracked through their entire life cycle. A user will not have to know the exact details of the system to document/validate the transaction (October 1998 - implemented as part of ACE).

- Minimize the revenue gap, through the accurate collection of duty by ensuring the proper classification and valuation of goods at time of entry/entry summary.

Customs will perform Compliance Assessments and assign Account Managers for the largest importer accounts to enhance informed compliance. Account managers will work in partnership with the importers to develop account specific action plans for raising compliance, beginning with 20 importer accounts in FY 1996 and expanding to the top 350 in primary focus industries by 1999.

E. ENHANCE INFORMATION GATHERING, COMMUNICATION, AND OUTREACH

To ensure that the Customs Service is meeting the needs of its customers and stakeholders, it must establish routine methods to track whether or not it is meeting their needs and then addressing them. To do this the following actions are being introduced or are contemplated:

- Implement the Automated Commercial Environment, and provide incentives to the importing community to use the new automated import declaration. (October 1998)
- Through trade forums and electronic survey capability, regularly track trade perceptions of Customs' trade compliance process and customer satisfaction.
- Coordinate efforts with other agencies in order to consolidate requirements and eliminate duplicate or unnecessary requirements.
- Through better access to information, resource deployment, goal setting, and communication, achieve more uniformity in practices.
- Establish the Account Manager to improve Customs performance and customer satisfaction, and to streamline process procedures beginning with 20 accounts in FY 1996, and expanding to the top 350 in primary focus industries by 1999.
- Involve all Customs disciplines in the formulation of the Trade Enforcement Plan, and communicate the goals, objectives, strategies and work plans associated with the trade enforcement plan. A Trade Enforcement Plan Conference is scheduled for FY 1996 which will involve field participants.

Question: Are you confident that you will be able to achieve what you are attempting?

Answer: Customs is confident that it will be able to successfully implement its Trade Compliance Process with support for re-engineering the Trade Compliance Process from other government agencies such as Agriculture, Commerce and FDA,

and continued support from Congress to complete the process redesign and implementation.

Corruption Allegations

Every year seems to bring allegations of corruption of Customs and Immigration personnel. Those allegations run from isolated to widespread. This season seems to be much the same.

Question: Could you please address the corruption issue? How do you see it?

Answer: The United States Customs Service is painfully aware of the seriousness of all corruption issues. And Customs knows all too well that it is vulnerable to the threat of corruption by the very nature of its enforcement work. But it bears repeating that incidents of corruption are isolated situations, and represent a very small percentage of individuals.

In February, 1995, U.S. Customs established Project Solemn Honor, a working group, consisting of 14 managers and field personnel. This working group conducted extensive interviews of over 400 individuals, inclusive of FBI and DEA personnel, as well as United States Attorneys, and other enforcement personnel inside and outside of Customs. The findings of those interviews clearly demonstrated that there was no pervasive corruption on the Southwest border. Corruption did exist, but it was in the form of isolated instances.

Additionally, the findings of the Blue Ribbon Panel, which examined and analyzed similar questions just a few short years ago, reached the same conclusions as the working group referenced above. There were no pervasive levels of corruption, only isolated instances.

U.S. Customs is dealing with enemies, i.e., the organized drug cartels, inclusive of the Mexican connections, which have virtually unlimited resources: money, equipment, and people. On the other hand, Customs must play by the legal rules, and within limited budgets that affect the resources of equipment and people. Customs has been able to balance those scales by virtue of the vast majority of dedicated employees who will not and cannot be corrupted. Even one corrupt employee is one too many; the Office of Internal Affairs will continue to do everything in its power to identify that very small percentage of dishonorable individuals within the Customs Service, and insure that they are indicted, arrested, and sentenced to the fullest extent of the law.

Question: What are you doing?

Answer: In furtherance of these efforts, Customs continues to explore every means at our disposal to eliminate as many potential areas of corruption as possible.

These measures are inclusive of, but not limited to, proper recruitment and selection of highly qualified individuals as Customs officers; Full Field Investigative screening; rigorous training which includes integrity training and agency expectations

of high personal standards, supported by a clearly defined table of offenses and penalties; and in-service integrity/bribery awareness training during their careers. Additionally, we use random drug-testing, irregular movement of employees among the various border check points, and comprehensive inquiries of all allegations, especially in related areas of potential corruption.

The Customs Service, Office of Internal Affairs, in concert with the Inspector General, Department of the Treasury, will continue to do their utmost to ensure that the scales will always be heavily weighted toward integrity. Customs employees have demonstrated time and again that they will continue to be the eyes and ears of our Internal Affairs agents, and, together, will continue to hold the line against the corrupting efforts of the drug cartels.

In closing, I want to emphasize that we are continuously reevaluating our security controls and operational investigations to minimize risks and to deal with corruption issues decisively as they occur.

Base Funding

There is funding outlined in the budget request which indicates that the base is fully funded.

Question: Is the base fully funded?

Answer: Customs base funding is an aggregate of funding received in past years for a variety of purposes. An attempt is made each year to make the appropriate adjustments for "maintaining current levels," but occasionally these adjustments are insufficient to meet increased costs from one year to the next. For example, in FY 1995, part of a mandated pay raise had to be absorbed within our base budget, requiring a corresponding reduction of 133 FTE. Concurrently, assumed savings due to various predicted efficiencies are often factored into our base funding in the form of reductions. If predicted efficiencies fail to materialize, the effect is a reduction in base funding. The FY 1997 President's budget recognizes that Customs base funding does not currently meet the total needs of the agency, and includes $4,805,000 for replacement vehicles ($2,000,000 of which is proposed for funding from the Violent Crime Reduction Trust Fund) , $2,400,000 for protective vests and surveillance equipment, and $2,000,000 for agent relocation to correct these identified deficiencies.

Question: How many positions (FTE) are unfilled?

Answer: As of March 30, 1996, Customs had 1,214 vacancies; however, Customs has over 900 positions in active recruitment from external sources and over 600 positions to be filled by reassignment. Actual FTE is a more abstract concept, reflecting the number of staff years realized by year's end. As the FY 1997 budget indicates, Customs proposes to realize 17,134 FTE funded from the Salaries and Expenses Appropriation.

Question: What would it take to fill those positions?

Answer: When Customs has to absorb unfunded costs, such as pay raises, the result is a reduction in the number of FTE that can be supported. Over the past several years, constrained budget resources have had some adverse effect on end-of-year FTE realization.

Question: Is the amount requested to maintain current levels accurate?

Answer: Customs is requesting a total of $47.3 million to meet its increasing obligations due to pay raises, benefits, changes in agency retirement contributions to the civil service retirement fund, and other expected increases in the cost of operations.

Of the total amount, Customs is requesting a $27.4 million increase to pay for the FY 1997 pay raise for three-quarters of a year and annualize the FY 1996 pay raise. Of the $27.4 million, $21.8 million is requested for the 3.0 percent increase in the FY 1997 pay raise and $5.6 million is requested for the annualization of the FY 1996 2.4 percent pay raise.

Customs is also requesting an increase of $13.3 million for benefits. Of this amount, Customs is requesting $5.7 million that is needed to pay the regular increases in the cost of retirement and health benefits, permanent changes of station, and worker's compensation. In addition, Customs is requesting $7.7 million that is needed to pay Customs share of an additional 1.5 percent government-wide increase in agency contributions to the Civil Service Retirement Fund.

Finally, Customs is requesting $6.5 million that is needed to fund other expected non-pay increases in the cost of Customs operations.

Question: When President Clinton took office he issued Executive Order 12837 that reduced administrative costs as well as personnel over a four-year period. FY 1997 is the fourth year. For the record, could you provide the Committee with a breakout of the following:

A. The amount of savings by year, and where the reductions were applied:

Answer: Executive Order 12837, signed February 10, 1993, directed agencies to submit budgets that reflected reductions in "administrative expenses" no less than a total of 14 percent, adjusted for inflation, over a 4-year period, FY 1994-FY 1997, from the base year of FY 1993. Dollar reductions assessed to Customs are shown in the following table. These reductions were taken in object classes 21-31, with the exception of 23.1, GSA rent.

REDUCTIONS IN BASE FUNDING PRESIDENT'S BUDGET FY 1994-FY 1997
(Dollars in Thousands)

Appropriation	Object Class	FY 1994	FY 1995	FY 1996	FY 1997	Total
Executive Order 12837						
Salaries and Expenes						
	Inspection and Control	-4,112	-4,328	-5,394	-6,716	-20,550
	Enforcement	-2,454	-2,583	-3,004	-3,739	-11,780
	Tariff and Trade	-1,925	-2,026	-2,598	-3,240	-9,789
	Total S&E	-8,490	-8,938	-10,996	-13,695	-42,119
Operations and Maintenance		-3,691	-3,885	-2,435	-6,922	-16,933
Small Airports		-4	0	0	0	-4
Total Customs		-12,185	-12,823	-13,431	-20,617	-59,056

B. The number of FTE saved as a result of the order, and where these reductions were applied.

Answer: No FTE reductions were assessed as a result of Executive Order 12837. Executive Order 12839 directed the reduction of FTE. Customs did reduce one FTE as a result of this direction.

Air Program

The Air program has undergone some changes in recent years. For the record could you supply the following:

Question: The number and type of aircraft in the force.

Answer: The information follows:

FY 1996 AIRCRAFT DEPLOYMENT
(As of April 17, 1996)

Air Interdiction	Number of Aircraft	Enforcement Support	Number of Aircraft
DETECTION		King Air 200	4
P-3A "Slick"	4	C-12 (King Air 200)	3
P-3B AEW	4	Light Twins	6
INTERCEPTORS		Nomad	4
Citation II	26		
TRACKERS		Single-Engine	21
Cheyenne IIIA CHET	5		
APPREHENSION		Helicopters	23
UH-60A Black Hawk	16		

FY 1996 AIRCRAFT DEPLOYMENT (As of April 17, 1996)			
Subtotal	**55**	**Subtotal**	**61**
Grand Total			**116**

NOTE: Not included above are 18 aircraft placed in long-term storage (which include 9 Piper PA-31's, 3 Piper Cheyenne IIIA's, 3 Nomads, 2 Cessna 404's, 1 Cessna 206). Of the 16 UH-60's shown, 13 are operational, 2 are in 500-hour inspection, and 1 is undergoing crash damage repair.

Question: The number of pilots and support personnel?

Answer: Customs currently has 315 pilots on board with a commitment for 21 additional pilots for a total of 336. Customs currently has 454 Aviation support personnel with a commitment for five more for a total of 459 support personnel. Support personnel include: Supervisors, Air Interdiction Officers, Command Duty Officers, Detection Systems Specialists, Administrative Support Staff, etc.

Question: The number of air branches and their locations.

Answer: There are 10 Air Branches and 7 Air Units. A list of names and locations follows.

Name of Branch /Unit	Location
Albuquerque Air Branch El Paso Air Unit	Albuquerque, NM El Paso, TX
Caribbean Air Branch	Aguadilla, PR
Houston Air Branch	Tomball, TX
Jacksonville Air Branch New York Air Unit Tampa Air Unit	Jacksonville, FL Ronkonkoma, NY Clearwater, FL
Miami Air Branch	Miami, FL
New Orleans Air Branch Pensacola Air Unit	New Orleans, LA Milton, FL
San Angelo Air Branch San Antonio Air Unit	San Angelo, TX San Antonio, TX
San Diego Air Branch Riverside Air Unit	San Diego, CA March AFB, CA
Surveillance Support Branch	Corpus Christi, TX

Tucson Air Branch Phoenix Air Unit	Tucson, AZ Phoenix, AZ

Question: Short term plans for adjustments.

Answer: Customs is pursuing the exchange of three BK-117 helicopters for five light enforcement helicopters (AS-350B2s) under the exchange/sale provisions of the Federal Property Management Regulations. In a letter dated February 28, 1996, from Commissioner Weise to the Deputy Assistant Secretary, Office of Drug Enforcement Policy and Support, Department of Defense, Customs has also requested the transfer of 14 C-12s being excessed by the U.S. Army as well as the transfer of the three C-12s currently on loan to Customs. Customs has a need for an aircraft such as the C-12 to carry out its investigative and maritime surveillance responsibilities. The transfer of those aircraft would enable Customs to replace other aircraft which are either obsolete and/or more expensive to operate, while enhancing the Air Program's enforcement support and interdiction capabilities. The number of C-12s that Customs requested was determined with existing budget constraints in mind. No increase in the operation and maintenance costs in the O&M account are anticipated at this time.

Question: The P-3 AEWs and Slicks fly a number of missions in the Transit Zones. They also are flown along the Southwest Border.

Could you provide a break out of the number of hours dedicated to P-3 flights.

Answer: For Fiscal Year 1996 through March, Customs P-3 AEW and P-3 "Slick" aircraft have flown a total of 2,580 hours.

Question: Will changes be made in fiscal year 1997?

Answer: No, the President's budget request for fiscal year 1997 provides resources for the same number of flight hours as those planned for fiscal year 1996.

Question: I understand that as part of the Memorandum of Understanding (MOU) between Customs and the Navy that in return for the use of one of Customs P-3 AEW for testing for the CEC Program, the Department of Defense has agreed to provide Customs with "Technological Upgrades" derived from the CEC Testing. As a part of that, a radar modification that would give the current Customs APS-138 radar systems equivalent performance to the APS-145 that Customs air crews deem necessary. I further understand that the Department of Defense is ready to install these black boxes at no cost to Customs.

Is that correct?

Has Customs asked DoD for this system?

Answer: Customs is awaiting further information from the Navy regarding supportableness of the APS-138 system given the Navy's upgrade to a total APS-145 system. The Navy has also been requested by letter to provide technical advice on the implications, if any, of sustaining a mixed fleet consisting of both APS-138 and APS-145 systems. We have received no formal or informal indication from DoD regarding their intention to provide black boxes at no cost to Customs pursuant to their MOU language stipulating that "Items of development equipment managed under the air CEC program may be transferred to USCS without reimbursement."

Aerostat Balloons

The Customs Service relies on Aerostat balloons funded by the Air Force. The Aerostats have been the topic of discussion for years. I don't want to go into the history of the program, but I would like you to briefly discuss the current status of the balloons.

Question: How many balloons are currently on station?

Answer: There are currently 11 Aerostats on station. Four have been dismantled. They are as follows:

On Station	Dismantled
Cudjoe Key, FL	Cape Canaveral, FL
Ft Huachuca, AZ	High Rock, Bahamas
Deming, NM	Georgetown, Bahamas
Yuma, AZ	Great Inagua, Turks and Caicos
Marfa, TX	
Eagle Pass, TX	
Rio Grande City, TX	
Puerto Rico	
Matagorda, TX	
Morgan City, LA	
Horseshoe Beach, FL	

Question: How many are operational? What is the current use time of those balloons?

Answer: All 11 aerostats are operational. The current percentage of uptime, as reported by the Air Force, for FY 1996 through March is as follows:

Aerostat	Uptime percentage
Cudjoe Key, FL	66.2
Ft. Huachuca, AZ	29.8
Deming, NM	68.7
Yuma, AZ	80.3
Marfa, TX	15.0
Eagle Pass, TX	60.7

Rio Grande City, TX	15.2
Puerto Rico	27.2
Matagorda, TX	62.0
Morgan City, LA	71.1
Horseshoe Beach, FL	63.6

Question: Do you feel that the aerostats are effective?

Answer: The aerostats are very effective. Their ability to interrogate transponders and comparatively long on-station times makes them the most cost-effective means of providing radar coverage along the U.S. border. The very real deterrent factor provided by the aerostats, coupled with the denial of primary trafficking routes, further justifies the use of aerostats instead of more costly DOD alternatives. The aerostat has also proved itself to be an excellent intelligence gathering tool, providing analysts and Customs and Border Patrol officers with information as to where in northern Mexico drugs are likely being transported by aircraft for off-load and subsequent transport across the U.S./Mexico land border. This information has also been used to direct Government of Mexico Northern Border Response Teams into areas close to the international border to successfully interdict drug smugglers.

Question: What is the Air Force's current position with regard to funding?

Answer: While we are not in a position to speak for the Air Force in this area, we are informed by the Air Force Program Office that the current level of approximately $36 million fully funds the 11 aerostats and all required spares.

Question: The Air Force has promoted over the horizon radar as much more effective than aerostats...Is this correct?...Is there a cost difference?

Answer: Customs does not agree that the over the horizon (OTH) radar is more effective than aerostats to support the Customs Air Interdiction Mission. OTH does not have the ability to interrogate transponders, thus making it very difficult to sort legitimate air traffic from suspicious aircraft in high density air traffic regions.

An OTH radar costs approximately $12 million annually to operate according to DoD. The six Southwest border aerostats cost $18 million to operate.

Marine Program

The Customs Service has reduced its Marine program over the past several years. Trends in smuggling indicate that air drops to waiting boats are on the rise.

Question: What is the current status of the marine program?

Answer: Since the implementation and successes of Operation Hard Line along the Southwest border, narcotics smuggling organizations are refocusing an increasing percentage of their efforts back to marine smuggling activity. In response to the increasing marine smuggling activity, a new marine enforcement strategy was developed during the first quarter of FY 1996. The goal of the strategy is to focus our marine resources in Florida, Puerto Rico, and the coastal areas on the Southwest Border. These are the areas that have experienced the increased marine smuggling activity. The Customs Service is also in the process of creating three marine enforcement centers (South Florida, Texas, San Diego) which will support offices that have a need for short term increased marine enforcement resources or intelligence analysts. On April 16, 1996, the Customs Service and the Government of the Commonwealth of Puerto Rico announced the implementation of Operation GATEWAY which is designed to permanently strengthen our anti-smuggling efforts in Puerto Rico and the surrounding Caribbean area. A major portion of Operation GATEWAY is focused upon strengthening our marine enforcement efforts in this area. With the new marine strategy the Customs Service is increasing the number of vessels we have in service through exchange sale and refurbishment, and also is attempting to increase the number of personnel who are certified to operate the vessels.

Question: How many boats are currently in service?

Answer: At the beginning of FY 1996 the Customs Service had 75 vessels in operation.

Question: How many personnel are on board? Do you have vacancies?

Answer: The Customs Service currently has 69 marine enforcement officers who are responsible for operating vessels and interdicting narcotics being smuggled into the U.S. via non-commercial vessels. The marine enforcement officers are augmented by 91 special agents who are also certified to operate vessels. The special agents operate vessels as required to further their narcotics smuggling investigations. Currently, the Customs Service is in the process of filling 23 vacant marine enforcement officer positions in Puerto Rico.

Question: Are you attempting to add to these numbers?

Answer: The President's Budget does not request an increase in marine enforcement personnel. We are, however, aware that any changes in the level of threat or in the number of vessels in service must be met by qualified Customs personnel.

Question: Where are your assets located?

Answer: Presently the marine enforcement assets of the Customs Service are concentrated in Florida , along the Gulf Coast, in Puerto Rico, and San Diego.

Inspector Overtime

The law was changed a couple of years ago with regard to inspector overtime. It appears that with the cap on the amount of overtime and the increases in inspector compensation through the years that the availability of inspectors could become an issue.

Question: What is the current situation?....Is this a current problem?...A potential one?

Answer: When the Customs Overtime Pay Reform Act (COPRA) became effective on January 1, 1994, the premiums under that law such as night differentials, were figured into the $25,000 overtime cap. While actual overtime hours have generally gone down, premium pay (e.g. night differentials) has contributed to an increase in the total amount spent within the cap. Consequently, there are some locations that may find themselves having to bring inspectors in from other ports to work the overtime at ports where the inspectors are approaching the cap. How this will actually play out is not completely clear at this time, but it is a potential management problem at some locations.

NAFTA Progress

The North American Free Trade Agreement made significant changes in the way Customs focuses on issues in this hemisphere.

Question: What has been the Customs experience with regard to implementation and subsequent activities?

Answer: Customs has been at the forefront of the implementation activities with respect to NAFTA. This effort has involved the drafting of the trilaterally agreed to regulations and procedures for domestic implementation and amendments thereto. Customs is the agency charged with enforcing the provisions of NAFTA with respect to claims for preferential tariff treatment. This has required that Customs personnel and the trading community be provided with the appropriate information--a resource-intensive and time-consuming undertaking. Customs is now fully engaged in performing verifications of claims for preferential treatment under NAFTA. Port personnel performed hundreds of verifications during calendar year 1995. This activity represents on-going NAFTA work for the agency. Additional subsequent activities have included implementing certain provisions of NAFTA which only became effective in January of 1996 and continuing a cooperative relationship with Canada and Mexico via the working groups created by the Agreement.

Question: What does the future project?

Answer: NAFTA trade has increased each year since its implementation. We expect this trend to continue given the fact that the duties are decreasing yearly--

originating goods from Canada become duty free in 1998-- and that production in the NAFTA territories is growing--one of the goals of the Agreement.

Question: What will the major focus be for Customs?

Answer: Customs major focus with respect to NAFTA for the upcoming year is to ensure that claims for preferential treatment are indeed for qualifying goods from our NAFTA partners. To this end, we have included a NAFTA component in our Trade Enforcement Plan. This component will measure the compliance by primary focus industry of NAFTA claimants and allow Customs to target non-compliant areas for more intensive scrutiny.

International Trade – Transshipment

Question: Transshipment of commodities is always a problem for Customs. Could you briefly outline the current trends and what Customs is doing on this issue?

Answer: Unlawful transshipment continues to be a problem for Customs. Customs has found unlawful transshipment used as a means to evade antidumping and countervailing duty (AD/CVD) provisions, to gain preferential duty rates, and most commonly to avoid textile quota and visa requirements.

To address textile transshipment Customs has recently established a multi-discipline problem-solving task force. Members of the task force will devote 100% of their time to proactively combat unlawful textile transshipment. The task force will use various sources of information including the analytical capabilities of our new Office of Strategic Trade to aggressively seek out and stop transshipment, including deployment of U.S. teams to foreign countries. In addition, Customs has successfully negotiated, with Canada and Mexico, a method for sending textile production verification teams to those countries for the purpose of identifying unlawful transshipment.

To address unlawful transshipment to avoid AD/CVD, the Office of Strategic Trade is using their analytical capabilities to proactively identify transshipment trends. They monitor import data for decreases in trade from the covered country with commensurate increases from third countries. Once a trend is identified, the ports are alerted to target shipments from the third country and verify the country of origin.

To address unlawful transshipment through Canada and Mexico to gain the advantage of preferential duty rates, Customs is continuing an aggressive origin verification program. As stated in the FY 1996 National Trade Enforcement plan, Customs will conduct approximately 5,600 origin verifications. This work is in addition to those verifications that are initiated at the port level.

Intellectual Property Rights

Intellectual Property Rights (IPR) was highlighted in the news in recent years, but seems not to occupy the focus it once did.

Question: Has the problem gone away? How is Customs Involved?

Answer: We have provided several nations with training and assistance in IPR matters. We have two projects with China where we are helping the Chinese to tighten their controls over the exportation of illegal (pirated and counterfeit) goods. The most significant of these efforts is in conjunction with the United States Trade Representative and relates to the Bilateral Agreement signed in February of 1995 by the U.S. and China. The other involvement with China is through a project funded by the Asian Development Bank.

Additionally, we have provided IPR training to these other nations as well: Indonesia, Russia, Ukraine, Mexico, Saudi Arabia, Taiwan, South Korea, Thailand and the United Arab Emirates.

United States Secret Service

Organized Crime/Gangs - Financial Crimes

There have been recent Senate hearings which addressed the rise in organized crime activities. Many of these activities are related to financial crimes. The Secret Service has long been active in combating some of these activities through the West African Task Forces.

Question: Could you comment as to the growth of financial crimes amongst this and other groups?

Answer: The Secret Service has seen a dramatic increase in a variety of criminal groups systematically attacking financial institutions in the United States. The financial community has identified credit card and check fraud as the two greatest problems causing losses to their institutions. Fraud relating to these activities costs the United States banking industry billions of dollars a year. Secret Service investigations show these emerging criminal groups are a significant part of this problem. These groups are not the traditional organized criminal groups such as the La Cosa Nostra, but are loosely controlled groups originating from Asian countries, Russia, Nigeria, and the Middle East.

Asian criminal groups are actively involved in a myriad of financial crimes such as counterfeiting of corporate checks, credit cards, travellers checks, U.S. currency,

identification documents, and the cloning of cellular phones. They often utilize desktop publishing programs to create computer-generated counterfeits of these monetary and identification instruments with relative ease. These counterfeit operations, generally consisting of a scanner, computer, and printer, can be highly mobile and difficult to track. They generally operate in cells of eight to ten people in various parts of the country, and are controlled by organizers who coordinate travel and target cities for fraud.

Since the breakup of the Soviet Union, Russian criminal groups have become active in financial fraud. The Secret Service has seen an increase in the number of investigations involving Russian criminal groups. They are active in mail thefts, and will use personal information gathered through this theft to open fictitious accounts for check and bank fraud, to take over credit card and bank accounts, and to falsely apply for credit cards.

Secret Service investigations have identified Middle Eastern criminal groups who are involved in a variety of financial crimes, including counterfeit credit cards; white plastic and stolen credit cards used at collusive merchants; airline ticket fraud; asset "bust-out" fraud schemes whereby a company or business is gutted of its assets by insiders; check kiting; and booster check schemes.

The Secret Service has seen these organized criminal groups either launder the proceeds from financial crimes or use the proceeds to further other criminal enterprises, such as illegal drug trade, gun running, and car thefts.

The Secret Service has seen that of all the criminal groups investigated by this agency, Nigerian Organized Crime is one of the leading groups in violations involving the Service's jurisdictions. Criminal acts aimed at both the financial community as well as the general public have continued to escalate. This Service has a long history of investigating Nigerian criminal enterprises dating back to the 1980's, and established the country's first West African Task Force.

Question: Have the types of financial crimes changed to evade enforcement efforts?

Answer: Nigerian, Russian, Middle Eastern and Asian criminals have expanded their level of involvement in various criminal enterprises, including access device fraud, bank fraud, counterfeit documents, counterfeit obligations and currency; insurance fraud (vehicle, life, property, and medical); social services fraud (welfare, housing assistance); drug trafficking (which can often be tied to financial crimes); stolen vehicles, and money laundering. It is not so much that the types of financial crimes have been changed by these criminal elements as much as they are privy to information that explains how to commit various crimes. As an example, they can obtain court affidavits detailing the investigative methods used to solve a particular crime. Many criminal groups are reactive to law enforcement efforts, e.g. they will use cloned cellular phones the maintain anonymity.

Question: Have the West African governments cooperated with the United States enforcement efforts?

Answer: The Service's investigative efforts pertaining to West African criminals focus primarily upon Nigerian nationals. To date there have been no extraditions of Nigerian subjects wanted for criminal activities.

In June the Secret Service plans to present the Nigerian government with the opportunity to conduct a joint effort to target numerous individuals in Lagos, Nigeria. These individuals are involved in one of the most profitable forms of financial crime, Advance Fee Fraud.

Question: What are the options available to U.S. law enforcement agencies to have a bigger impact?

Answer: The method the Service finds most effective for successful investigations of Nigerian organized crime cells and others is the establishment of multi-agency task forces. This task force approach allows for the combined expertise, jurisdictional authority and assets to target large scale intrusions into the financial arena.

Additionally, information sharing, and coordination among the numerous law enforcement agencies, training with overseas criminal justice systems, and the education of the general public, all play an important role in attacking organized criminal enterprises.

International Training

In the effort to combat specific criminal activities, globally, the U.S. law enforcement community has provided certain types of training to certain foreign law enforcement agencies.

Question: In light of the Secret Service overseas counterfeit investigations and certain protection activities does the Secret Service provide such training?

Answer: The Secret Service has training outreach worldwide, not only focusing on counterfeit investigations, but on the full range of its law enforcement jurisdictions. The Service does not, however, provide training relating to its protective responsibilities.

The Secret Service works independently, and also as an active participant in joint ventures with the Department of State and other law enforcement bureaus, to provide anti-counterfeiting and other economic crimes training worldwide. The Service presents instruction at the International Law Enforcement Academy in Budapest. This academy graduated nearly 100 mid-level law enforcement officers from nine different countries in FY 1995 alone. In addition, through the International Currency Awareness Program, and through other economic fraud and counterfeiting seminars conducted during FY 1995, nearly 3,000 law enforcement, banking and other officials worldwide received training from the Secret Service. In FY 1996, the Service will add training with Interpol, the development of a Central America/South America training outreach program, and participation in a Central Bank of Russia fraud assessment and training initiative.

The presence of senior agents in the world community provide an opportunity to constantly educate host officials with regard to enforcement issues of concern to the Service, and more importantly to further develop working relationships on cases or criminal issues of mutual concern.

Question: How would you characterize the importance and the impact of such training?

Answer: The importance and impact of such training cannot be overstated. Over 69% of the counterfeit currency passed on the American public within U.S. borders originated outside this country. In areas of other economic crimes, the same technology and legal innovations which promote international trade and intra-country development are exploited by organized criminal enterprises to launder money and to attack the financial systems and institutions of nations worldwide. Such problems cannot be solved by any one nation or law enforcement bureau working in isolation. The Secret Service has already benefitted greatly from its increased contact with, and training of, law enforcement communities around the world.

Question: Is there a cooperative effort between the U.S. law enforcement agencies participating in training, or do the typical turf and jurisdictional issues arise?

Answer: Overall, there exists good cooperation between U.S. law enforcement agencies relative to the international training initiatives. An Interagency Working Group, chaired by the Department of State, allows all federal enforcement agencies to participate in Department of State funded training initiatives such as those funded through the Freedom Support Act and the Support for Eastern European Democracies Initiative. In addition, there is considerable voluntary cooperation in supporting other bureau training initiatives.

Forensic Assistance To State And Local Law Enforcement

The Secret Service possesses unique forensic capabilities. These capabilities have application to other criminal investigations which are most frequently investigated by state and local law enforcement authorities. Congress provided funding in fiscal year 1996 to enhance your forensics capabilities so that they may be provided to enforcement agencies investigating crimes against children.

Question: What progress has been made regarding this effort?

Answer: Since receiving funding to provide assistance to state and local law enforcement in their investigation of crimes against children, the Forensic Services Division (FSD) of the Service established a handwriting database of letter writers. The Forensic Information System for Handwriting (FISH) provides unique and proven technology that is used to search letters produced by known and unknown writers in an attempt to identify, or associate open cases submitted by federal, state, and local law enforcement agencies, or by the National Center for Missing and Exploited Children (NCMEC) clearinghouses. While this database is still in its infancy with over 200 writers, it is continually growing as documents are added.

Efforts are underway for FSD to receive unidentified latent fingerprints from state and local law enforcement agencies in unsolved cases involving crimes against children. These fingerprints are to be submitted directly from a law enforcement agency or through NCMEC clearinghouses. These unidentified prints will be searched through the Service's Automated Fingerprint Identification System (AFIS) which accesses over 25 million fingerprints throughout the United States. Also, new state-of-the-art polygraph, and age progression/regression equipment has been acquired to assist when needed.

Question: Has there been any success through these efforts to provide such assistance?

Answer: Yes, twenty-seven polygraph examinations have been conducted for state and local law enforcement agencies, resulting in the identification of the probable perpetrator in a missing child case; fifteen suspects arrested in child exploitation cases; and five persons cleared of child exploitation charges. Most significantly, the location of a known child abductor, and two abducted children was established by tracking cellular phone communications with Secret Service forensic technology.

Question: Based on your successes and interaction with state and local enforcement agencies, what lies ahead?

Answer: With respect to the Missing and Exploited Children program, success in the area of polygraph assistance is expected to continue. The acquisition of new equipment will allow the Secret Service to better assist in age progression/regression drawings. Also, as the FISH database increases, it is anticipated that the closing and/or consolidation of open cases that involve handwritten documents will occur. As state and local law enforcement agencies submit unidentified latent fingerprints, suspects will be identified through AFIS searches enabling the closing and/or consolidation of unsolved cases; and, as state and local agencies learn of the services that are being offered in the area of crimes against children, it is anticipated that requests for all areas of expertise offered by the Secret Service will increase.

Additionally, assistance is now being offered to federal, state, and local law enforcement by the Secret Service in the area of handwritten threats directed towards Members of Congress, Supreme Court Justices, Federal Court Judges, governors, mayors, and other elected officials as deemed appropriate by Secret Service field offices. This is accomplished by utilizing the FISH technology and the established Presidential threat database. Experience has shown that writers of threat letters directed toward the President of the United States may also write other elected officials with similar threats. Already, under this new program, cases being investigated by the Federal Bureau of Investigation, the US Capitol Police, and the Secret Service have been consolidated and individuals have been identified through handwritten threats. Two of the first three cases submitted to the Secret Service resulted in the identification of individuals from handwritten threats to a Member of Congress, the wife of a former President, and ten Federal Court Judges.

Since the inception of this new program, in January 1996, the Service has received three cases from state and local law enforcement involving threatening

correspondence directed toward governors. Through forensic techniques, a suspect with a violent criminal record was identified in one of these cases. It is anticipated that as state and local law enforcement are informed of this program and technology, threatening correspondence will be submitted routinely, allowing for the consolidation of cases and/or the identification of threat letter writers.

Counterfeiting

The counterfeiting of U.S. currency continues to be of concern to this committee. While I realize that ongoing investigations cannot be discussed in an open forum, I want to be certain that your efforts are being supported.

Question: What is the status of the overseas positions which were funded in previous years?

Answer: Of the 28 positions requested by the Secret Service, 17 have been approved by the respective Chiefs of Mission, through the State Department; and two additional support positions have been agreed upon, for a total of 19 new Secret Service positions overseas. The two additional positions resulted from the need for Foreign Service National investigators to work with Secret Service agents in Milan and Hong Kong.

Of the 11 requested positions not yet approved, two are awaiting further consideration by the State Department. They are the second agent positions in Bogota and Hong Kong. Three positions in Moscow, and one in Ottawa, are the subject of discussions that involve the construction of new embassy facilities at both locations. Planning for the new facilities already include floorplans for Secret Service personnel.

The request for three positions in Mexico City has been denied because of space considerations at that location; one additional agent position in Bangkok has been denied due to financial concerns as expressed by the Ambassador; and the one additional agent position in Manila has been denied due to the Ambassador's reported opinion that it is not necessary.

Question: Has the appropriate request been made to the Department of State regarding the offices and personnel directly involved in your counterfeiting efforts?

Answer: Yes, in accordance with the provisions of National Security Decision Directive (NSDD)-38, all requests for new Secret Service overseas positions have been communicated to the Department of State, through the Department of the Treasury.

Question: Director, I understand that only 18 of the 28 positions have been approved by the State Department. Has the State Department provided you, as Director, or the Treasury Department with written rationale for denying the remaining positions?

Answer: Decisions from Chiefs of Mission (COM) arrive at the Secret

Service, through Treasury, and appropriate responses have been returned to the various embassies. Some embassies have specified fiscal and facility concerns that required agreements; some requested additional justification; and others necessitated an appeal. In each case, the Secret Service response, through Treasury, has been successful. In cases where the COM has denied access, the Service has been able to meet with senior representatives of the embassy and discuss in greater detail the need for staffing.

Question: What response has been provided by Treasury to the State Department, and when was it provided?

Answer: In response to 1) additional overseas Secret Service positions being provided for in Treasury Enforcement's 1995 and 1996 appropriations bills, and 2) requests from the Secret Service, a total of 28 requests for Secret Service personnel were advanced to the State Department. Twenty eight positions were requested by the Secret Service and were funded by the Congress. Virtually all of the requested positions have been approved; and the approval process is pending for others.

Question: The Committee has been involved in trying to resolve issues in the past, do we need to intercede at this point on this issue?

Answer: The Secret Service has been fortunate to receive outstanding Congressional support in its effort to expand its overseas presence. Because of that support, and the attention Congress has devoted to this effort, the Secret Service is well on its way to the successful staffing of most requested positions. Because each post is unique, several issues are yet to be resolved. But, at this point, more active intervention by Congress may not be necessary.

There have been a number of recent press reports as well as hearings in the House regarding the current state of counterfeiting U.S. currency throughout the world.

Question: Are they accurate?

Answer: During the past two years, Secret Service personnel conducted 304 foreign educational sessions covering the identification of genuine United States currency and the detection of counterfeit U.S. currency. These educational sessions were attended by law enforcement and banking officials from 81 different countries. These seminars and training sessions were conducted to answer the questions that were raised by media inaccuracies, and establish lines of communication with the Service's foreign counterparts and the international banking community. The hyperbole and exaggerations committed by members of the media merely fuel distrust in financial systems and are deleterious to the Treasury in particular, and to the United States government as a whole.

Since the inception of this intensive training program and on-site inspections, several foreign governments have corrected their estimates on the volume of counterfeit United States currency within their borders.

Question: What is your best estimate?

	FY 1995
Passed in U.S.:	$ 32,490,162
Seized in U.S. (No loss):	$ 75,262,251
Passed Foreign:	$ 21,696,919
Seized Foreign (No loss):	$209,614,760

Question: Are you and the Department satisfied that estimates on the amount of counterfeit currency are based on a significant sample of currency in circulation?...Why?

Answer: Yes. The Secret Service has gone to extraordinary lengths to seek reliable information concerning the extent of the counterfeit problem as reported from governmental, commercial, and other sources.

The Secret Service, in conjunction with the Federal Reserve, utilizes what the Service believes to be accurate and timely reporting of statistical information.

Domestically, the size or extent of counterfeiting is easily assessed from the amount of counterfeit found by the Federal Reserve and received by the Secret Service from currency passed on the public, and from seizures prior to circulation. Last fiscal year, $32.5 million was passed on the public, about one-third was detected by the Federal Reserve, the remainder was detected by commercial banking and retail businesses prior to Federal Reserve deposit, and was forwarded directly to the Secret Service.

According to the Federal Reserve, there are approximately 17 billion notes in circulation, with a total value of $394 billion. $100 notes constitute 2.4 billion of the total, with a value of $240 billion.

Internationally, the Federal Reserve estimates that of the $240 billion in $100 notes currently in circulation, $180 billion is circulating abroad. Last year the Federal Reserve processed $23 billion in $100 Federal Reserve Notes (230 million notes), received from foreign deposits, or about 13% of the $100 notes in circulation abroad; by any standard, 13% is a very large polling sample. An average of fifty-five counterfeit notes per million was found.

In addition to utilizing the 13% polling sample as an indicator, it can be stated that nearly all Unites States currency, as a result of legitimate currency transactions (currency passes from consumer to merchant, merchant to commercial bank, commercial bank to Federal Reserve Bank), will pass through the Federal Reserve at one time or another, where detection and statistical compilation is a near certainty.

Counterfeit that remains within a sub-culture strata has no adverse effect on the legitimate economy, nor does it have bearing on the level of confidence in the dollar. Furthermore, even the monies circulated by organized criminal elements eventually will be "laundered" through commercial establishments and financial institutions.

Therefore, these monies will also be scrutinized by the Federal Reserve system.

The 13% sampling, along with two-thirds of the counterfeit in circulation being detected by commercial banking and retail businesses prior to Federal Reserve deposit, is the most accurate method of determining counterfeit activity.

Transnational Crime

Question: The increased emphasis on transnational crime certainly has applicability to the Secret Service. What dividends do you anticipate receiving from your agency's involvement in single and multi-agency training initiatives such as the International Law Enforcement Academy?

Answer: The Secret Service, in efforts to face transnational criminal challenges, anticipates cooperation between U.S. agencies and the law enforcement agencies of several other countries in the fight against illegal drug trafficking, money laundering, financial crimes, terrorism and organized crime. The Service expects enhanced bilateral cooperation and institutional links along with discussions on a possible future legal framework to facilitate relations between foreign nations and corresponding U.S. agencies. The Service further anticipates an exchange of confidential information and cooperation in assessing specific threats from terrorism and other sources.

There is continuing evidence that the advance fee fraud being committed by Nigerian criminal groups is impacting vulnerable persons in every state.

Question: To what extent is the Secret Service involved in these investigations?

Answer: While some states seem to be targeted heavier than others, victims and potential victims from every state have come to the attention of the Secret Service.

Recent investigations indicate that while many fall prey to these get-rich-quick schemes, the most vulnerable appear to be the elderly and small businesses experiencing financial difficulties.

Financial losses associated with Advance Fee Fraud are conservatively estimated to be in the hundreds of millions of dollars worldwide.

In response to this growing epidemic, the Secret Service established "Operation 419", designed to target Nigerian Advance Fee Fraud on an international basis. Secret Service agents have been assigned on a temporary basis to the American Embassy in Lagos to combat the problem in that arena.

The Secret Service's Financial Crimes Division continues to receive approximately 100 telephone calls from actual/potential victims and 300-500 pieces of related correspondence per day.

The Service has adopted a two-pronged approach of investigation and education to decrease the financial losses associated with these schemes.

Currently the Service is involved in a cooperative effort with New Scotland Yard in London, England. This joint effort has resulted in the recent arrest of several Nigerians for their involvement with an Advance Fee Scheme clearinghouse operating within the United States. Through the efforts of the many West African Task Forces currently operating in the U.S., the Service has maintained a position as the lead U.S. law enforcement agency in investigating the various fraud schemes perpetrated by Nigerian cells.

Entitlement Fraud

The Committee and the Service have been committed to efforts aimed at reducing entitlement fraud. Based on the Secret Service's very successful experience in recent years ferreting out fraud, the Committee directed the Office of Management and Budget to take steps to coordinate administration efforts to crack the entitlement fraud problem.

Question: Could you give us an update of where we are at this point?

Answer: The Secret Service has been in the forefront of efforts to reduce loses with regard to entitlement fraud. The Service has concentrated on the international problem, and the results of the continuing Operation TRIP program to date have been highly successful. At present, the Office of Management and Budget (OMB) has taken efforts to ensure that all entitlement agencies have developed programs that mirror Secret Service recommendations. A report from OMB has been provided to the committee.

In addition, a two day conference will be held entitled, Federal Agencies United Against Fraud, on May 22-23, 1996. The Secret Service has been an active participant on the steering committee for this conference, and has played a major role in the conference planning and preparation. This conference, which is open and free to all government agencies will promote interactions between federal agencies. This will foster better computer matching alliances, and provide information on computer matching initiatives currently underway across the public and private sectors. These initiatives will greatly aid in the fight against entitlement fraud.

Base Funding

There is funding outlined in the budget request which indicates that the base is fully funded.

Question: Is the base fully funded?

Answer: At this point in time it is unclear as to whether or not the Service's base budget for staffing will be sufficient in FY 1997. Although the FY 1997 budget requests an additional $1.7 million for payroll base restoration, it also proposes a reduction of $4.0 million to the pay and benefits accounts in anticipation of savings in

overtime and employee transfer costs. Further, the final administrative cost reductions of $5.718 million under Executive Order 12837, coupled with the base reduction of $7.646 million to this same non-pay portion of the Service's budget in FY 1996, will present a stiff challenge. It will be very difficult for the Service to both achieve a staffing level equal to its authorized ceiling, and provide the services and equipment needed by the workforce to meet mission requirements.

Question: How many positions (FTE) are unfilled?

Answer: At this point, it is unclear how many FTE will remain unfilled in FY 1997 due to a shortage of funds.

Question: What would it take to fill those positions?

Answer: A good estimate as to how much would be required to fund unfilled FTE in FY 1997 would be very difficult to make at this point. Much will depend on the success the Service ultimately has in achieving the administrative cost reductions already made to the Service's base budget, as well as those being made in FY 1997. The budget has been reduced in anticipation that these administrative reductions can be made; however, ultimately these savings may or may not be realized.

Question: Is the amount requested to maintain current levels accurate?...What will this funding be applied to?

Answer: The amount requested in the Service's FY 1997 Budget Request to maintain current levels is accurate insofar as the economic assumptions underlying this estimate proves to be correct. Of the total amount requested for maintaining current levels, $9,725,000, or 55%, is required to pay for the proposed general and locality pay raises for 1997, as well as for the annualized cost of the 1996 pay raises. Other significant cost increases covered in the amount requested for maintaining current levels are: anticipated increased agency contributions to employee retirement systems ($2,842,000), increased travel costs of 2.7% ($1,106,000), increased retirement benefit costs resulting from a larger portion of the total employee population being covered under the Federal Employees' Retirement System - a retirement system which places a higher cost burden on the individual agency than the Civil Service Retirement System - ($968,000), increased health benefits costs ($667,000), and an increased reimbursement to the Labor Department for Workers' Compensation ($305,000). The remaining $2,021,000 is to cover a projected 2.7% increase in the cost of services, supplies, and equipment.

When President Clinton took office he issued Executive Order 12837 that reduced administrative costs, as well as personnel over a four year period. Fiscal year 1997 is the fourth year. For the record could you provide the committee with a breakout of the following.

Question: The amount of savings by year, and where the reductions were applied.

Answer:

Administrative Cost Reductions Executive Order 12837 (Dollars in thousands)					
	FY 1994	FY1995	FY 1996	FY 1997	TOTAL
Transportation of Things				($227)	($227)
Rent, Comm. & Utilities	($575)	($605)	($639)	(1,312)	(3,131)
Printing and Reproduction				(71)	(71)
Other Services	(470)	(495)	(504)	(3,206)	(4,675)
Supplies and Materials	(838)	(882)	(941)		(2,661)
Equipment	(1,166)	(1,227)	(1,277)	(902)	(4,572)
Total	($3,049)	($3,209)	($3,361)	($5,718)	($15,337)

Question: The number of FTE saved as a result of the order, and where these reductions were applied.

Answer: Under Executive Order 12838 the Service was required to reduce its staffing level by 46 FTE in FY 1993. This reduction was taken across all Service activities. The Service was not required to take any further FTE reductions under this Executive Order during fiscal years 1994 and 1995.

Secret Service Headquarters Building

All of the hurdles appear to have been cleared regarding the construction of the new headquarters facility for the Service.

Question: When will construction begin?

Answer: The construction contract will be awarded in June, 1996 with construction beginning in July 1996.

Question: What is the anticipated completion date?

Answer: Construction is expected to be complete in February 1999.

Question: What is the anticipated occupancy date?

Answer: Although our equipment will be installed earlier, we anticipate a phased occupancy of personnel beginning in February 1999 and concluding in April 1999.

Question: Will there be adjustments made to the current plan?

Answer: None are expected.

Question: There is a request for funding in the fiscal year 1997 budget for a number of issues associated with the move. Could you outline what these requests are and what they will be used for?

Answer: The FY 1997 Headquarters Consolidation budget line items are as follows:

- **Enhanced Security Construction ($9,578,000):** Construction is required to implement the recommendations stemming from the Department of Justice Vulnerability Assessment of Federal Facilities, which were prepared in response to the Oklahoma City bombing.

- **Technical Support Services ($1,936,000):** Continuation of contractor services which provide temporary expertise for telecommunications and relocation planning, procurement assistance and construction administration. Supplementing the Service's core staff with contract experts in critical areas such as communications architecture, and relocation services is considered an economical and effective means for accomplishing the work associated with the consolidation project.

- **Interior Build-out and Finishes ($3,498,000):** Provides for the inclusion of relocatable walls, clerestory and tenant building signage. The use of relocatable walls will enable future reconfiguration to be accomplished with considerably lower cost and disruption to operations. Clerestory, optimally placed, will allow limited natural light to reach more employees. While GSA provides general building signage, the agency is responsible for more detailed application of signage at the division, branch and individual employee level.

- **Information Systems ($1,670,000):** Provide for the implementation of the information systems design for voice and data communications to the building.

- **Data Center ($371,000):** To re-establish, by way of disassembly, relocation and start-up at the new facility, the Service's main computer room.

- **Base Building Systems ($2,314,000):** Funding will provide for base building systems security equipment to include locks, card readers, closed circuit television cameras, magnetometers, audio-visual equipment and cable access television. The building cannot be occupied until security functions within the building are operational.

- **Special Purpose Equipment ($1,306,000):** Provides special purpose equipment that will be specified during the design phase. Includes loading dock equipment, library/resource equipment, mail room equipment and forensic laboratory equipment.
- **Furniture ($7,768,000):** Provides for the purchase of new systems and free standing furniture as well as the refurbishment of existing furniture for re-use as appropriate. The furniture needs for the new building were identified from a furniture inventory analysis conducted by a private contractor. All existing furniture was tagged, photographed and analyzed for potential reuse at the new building. The re-use of as much existing

furniture as the space constraints and the condition of the furniture allow, will be done.

Requiring that the majority of personnel be housed in open space and small offices, smaller workstations are being planned throughout the new building. For the most part, the existing free standing furniture will not fit into the planned spaces; therefore, new systems furniture must be purchased.

- **Dual Operations ($255,000):** Dual operations will provide for security of the construction site until the Service's telecommunications, security and other agency-specific building systems are installed.

- **Moving Services ($97,000):** Will provide for the development of a tracking mechanism which will manage furniture and equipment inventories being excessed or re-used.

- **Contractor Imaging ($72,000):** A Contractor Imaging system will be used to monitor contractors and laborers on site during construction of the building. It will be incorporated at the new building within the new security system.

- **Contractor Support Services ($300,000):** Will provide contractor support services to help develop, integrate, and implement automated building and facilities management functions in anticipation of the move to the new headquarters building.

Base Funding

Question: There appear to be number of funding requests included in the Violent Crime Reduction Trust Fund account which would seem to be more appropriately included in the Service's base request. Could you provide additional justification for these requests?

Answer: In determining funding priorities under the Violent Crime Reduction Trust Fund, the Administration hoped to do several things:

-- First, it was hoped that where possible the VCRTF funds could be used to fund one-time purchases or extraordinary costs not normally borne by a bureau. Due to the uncertainty of the availablity of the VCTRF beyond FY 2000, it was our hope that the large amounts of recurring base costs, especially FTE, not be built into the Crime Bill budget proposal. Accordingly, a number of costs related to FTE were reporgrammed from the Crime Bill accounts to bureau base accounts (e.g. White House Security) and a number of one-time expenses were proposed to be funded out of the Crime Bill.

Examples of these one-time Secret Service expenses to be funded by the VCRTF in 1997 include: the costs related to equipment to upgrade White House security, and upgrades to the Secret Service mainframe.

-- Second, consistent with the Crime Control Act authorization for the Department of the Treasury, the Service focused on providing funding for "activities that will result from enactment of this Act." Although this provision is not further defined in the Act, we have relied on past appropriations actions by Congress to draw guidance as to what would be appropriate to fund out of the VCRTF.

In the past, Congress has appropriated VCRTF funds for Secret Service efforts which had been part of the Secret Service base budget. For example, in the FY 1996 appropriations act, VCRTF funds were used to fight overseas counterfeiting, assist forensics (missing children), and to continue efforts against financial fraud (Operation TRIP) . In other Treasury bureaus, Congress has provided VCRTF funds for programs typically part of "base requests" (e.g. ATF GREAT program administrative costs).

Examples of expenses included in the FY 1997 President's budget which have in the past been part of base funding include the proposals to fund Operation TRIP and the missing children program.

-- Finally, although funds for vehicle purchases and some equipment would normally be part of the base budget, due to other funding constraints, there have been no resources available to fund some vehicle and equipment costs.

White House Communications

Last year there was a problem with a funding request from the Department of Defense requesting reimbursement for communications from the Secret Service at the White House. The problem was resolved with a general provision in the defense appropriations bill.

Question: What is the current status of this issue? Is it still a problem?

Answer: The general provision in the defense appropriations bill resolved this issue for fiscal year 1996. The President's budget proposes that this communications support be provided by the White House Communications Agency to the Secret Service in the Washington, DC area on a continuing non-reimbursable basis.

Question: What can be done to lay this issue to rest?

Answer: Proposed Section 8051 under the *General Provisions - Department of Defense* of the FY 1997 Budget would make provision of this communications support on a non-reimbursable basis permanent, and lay this issue to rest.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

Bureau of Alcohol, Tobacco and Firearms

Question: The Bureau of Alcohol, Tobacco and Firearms has field offices in Denver and Colorado Springs, Colorado. To what extent do these offices support the efforts of State and local law enforcement agencies? Also, please provide to the Subcommittee a report of the activities and accomplishments of these offices during the past year and any plans ATF may have to expand its activities in Colorado.

Answer: ATF currently has three Criminal Enforcement (CE) groups and one Regulatory Enforcement (RE) office in Colorado.

The two Denver and one Colorado Springs Criminal Enforcement groups are headed by Resident Agents in Charge (RAC). The three RACs report to the Special Agent in Charge located in Kansas City. The Denver office consists of an Achilles/OCDETF group and an arson group. Each group is staffed by 7 special agents. There is one group in Colorado Springs consisting of 5 special agents. Special agents investigate illegal activities regarding firearms, explosives, arson, alcohol and tobacco. ATF special agents in Colorado provide support and assistance to the efforts of state and local law enforcement agencies throughout Colorado. Agents also participate in several law enforcement task forces throughout the State. The goals of these diverse task forces include investigating organized firearms and drug trafficking, violent gang activity, and arson and explosives incidents.

The Denver Regulatory Enforcement office is headed by an Area Supervisor who reports to the District Director in Dallas, TX. The RE office is staffed by 7 field inspectors. The RE inspectors work with the legal alcohol, tobacco, firearms, and explosives industries in Colorado. They do on-sight inspections in regard to tax collection, public safety. support to law enforcement, product and market integrity, and permits and licenses. Inspectors frequently work with State agencies such as Colorado Liquor Enforcement and Colorado Bureau of Investigation as well as city and county licensing boards, zoning boards, and police authorities.

Highlighted Investigations in Colorado:

ATF special agents in Colorado Springs conducted an investigation into violations of Federal firearms and narcotics laws by the "Carver Park Crips", a violent, Los Angeles based street gang. The investigation culminated with a shootout between gang members and an undercover ATF agent who was attempting to purchase unlawful firearms from the gang members. Eight gang members, including three that fled to California, were arrested, convicted, and sentenced to more than 75 years of cumulative imprisonment.

Another undercover investigation culminated when five defendants were indicted and arrested. Crimes ranging from Federal firearms and narcotics violations to organized auto theft and murder were involved. Seven firearms, one-quarter pound of methamphetamine and five stolen automobiles were recovered during the investigation. Additionally, as a result of evidence discovered by ATF during the search warrants, one of the defendants was charged with the drug related murder of a woman in Elbert County, Colorado.

Special agents conducted a roundup of 12 defendants following a 1-year undercover investigation into an armed drug trafficking ring which migrated from California. The agents seized over $200,000 in crime related funds, one kilo of cocaine, 2.25 kilos of methamphetamine, 1,136 kilos of ephedrine, 26 firearms, and 2 pipe bombs.

Special agents participated in a joint investigation with DEA and State and local law enforcement authorities. During the execution of a State search warrant for stolen property, local authorities discovered a methamphetamine lab with numerous firearms on the property. Five suspects involved had previous arrest records and/or felony convictions for distribution of narcotics and/or possession of explosive devices. ATF took 10 firearms into custody including five assault type weapons and submitted various components of an improvised incendiary device to the ATF lab for analysis. All five defendants have pled guilty to various firearms and/or narcotics violations. Two defendants who received sentences of 120 months had 60 months added to their original sentence based on the Armed Career Criminal Statute.

ATF efforts in an investigation resulted in the identification of two individuals responsible for an arson fire at an apartment complex that resulted in the deaths of two tenants. Although their crime warranted Federal prosecution, both individuals were charged in State court with murder, arson, and aggravated assault charges, due to the severity of the murder charge. They are expected to plea to murder charges.

Inspectors assisted the Colorado Springs Sales Tax Division in collecting taxes from Federal firearms licensees by providing a list of all licensees and contacting the dealers. The project was later expanded to cover all of El Paso County. A similar project was initiated in Pueblo and Denver.

Other Colorado Information:

Of the 9,928 Federal explosives licensees/permittees, 194 are in Colorado. Of the 165,716 Federal firearms licensees, 2,730 are in Colorado. $347 million (5.1%) of all Federal alcohol excise taxes are collected in Colorado.

Plans:

In a planned field reorganization which will occur on 10/1/96, Colorado CE offices will be transferred from the Kansas City Field Division to the Phoenix Field Division. All CE offices and personnel in Colorado will remain the same but they will report to the Special Agent in Charge in Phoenix rather than Kansas City. The Phoenix Field Division will consist of the states of Arizona, New Mexico, Colorado and Utah.

Question: I am concerned about the extent of gang violence and gang migration nationwide, especially in my home state of Colorado. Many of the criminal offenses committed by gang members involve the illegal use of firearms. Law enforcement reports estimate that there are approximately 4,500 gang members in Denver and 2,000 of these are considered to be "hard core" members. Reports also indicate that the Crips and Bloods, and affiliated gangs, are active in communities throughout Colorado. What is ATF's role in targeting violent criminal activity perpetrated by gangs in Colorado and nationwide?

Answer: Both nationwide and in the great State of Colorado ATF plays an integral role in investigating and stopping armed violent activity perpetrated by gangs. This is evidenced by the fact that ATF was asked to participate in the development of the 5-year strategic plan to reduce violent crime in America currently being finalized by the Department of Justice (DOJ), Office of Investigative Agency Policies. This plan is being formulated in response to a congressional request to the Attorney General and will address the issue of gang-related violence. ATF is the only Treasury Department agency asked to contribute to this major DOJ strategy formulation effort.

ATF's Achilles Program, is an effective force against armed and violent gang activity. In addition, ATF plays an integral role in the High Intensity Drug Trafficking Initiative (HIDTA) and Organized Crime Drug Enforcement Task Force (OCDETF) programs nationwide which specifically address armed violent criminal organizations. ATF's success in the OCDETF is apparent by the fact that although we only receive 2.5 percent of the total OCDETF funding available, ATF is actively involved in 35 percent of all OCDETF investigations. In addition, ATF's rate of prosecution at the U.S. attorneys office is outstanding which indicates that we are presenting quality cases for prosecution. In fact, according to DOJ statistics, between FY 1990 and FY 1995 ATF special agents recommended for prosecution more defendants per agent than any other Federal law enforcement agency and our rate of acceptance for prosecution by the U.S. attorneys office was 95 percent, significantly higher than most Federal law enforcement agencies to include the FBI whose prosecution acceptance rate is 60 percent.

During FY 1995 ATF recommended more than 130 dangerous criminals for prosecution in the State of Colorado. To date in FY 1996 ATF has recommended at least 80 dangerous criminals for prosecution in the State of Colorado.

ATF's strategies to investigate and incarcerate armed violent criminals, armed drug traffickers, and the illegal firearms traffickers who are the source of firearms for these armed criminals and gangs are extremely effective. Some examples of our unique abilities to address armed-gang activity are as follows:

Colorado

In November 1993, ATF initiated an investigation targeting a number of subjects who were trafficking in crack cocaine and firearms. Many of these subjects were identified as members of the Carver Park Crips from Compton, California. This group was involved in the armed trafficking cocaine from Los Angeles to Colorado, the manufacture and distribution of crack cocaine in Colorado Springs, illegal firearms

trafficking, and the assault and intimidation of persons in competition with their unlawful enterprise.

During the course of the investigation, which utilized confidential informants and undercover ATF special agents, crack cocaine and firearms were seized. In February 1994, the undercover special agent attempted to purchase three firearms from an individual who had previously sold crack cocaine to the special agent. Three other individuals accompanied the suspect. During the encounter, one of the suspects attempted to rob the special agent at gunpoint. A gunfight ensued in which the undercover special agent and the one suspect sustained gunshot wounds to their legs. Some of the suspects managed to flee the scene, but they were all identified and arrested within 10 days.

As a result of the investigation, eight gang members were arrested for armed drug trafficking and the shooting of a Federal agent. All eight defendants were found guilty and all received sentences to prison for periods ranging from 3 years to 20 years. Cumulatively, the period of incarceration for all eight defendants totals 861 months (71.75 years).

Detroit, Michigan

In January 1995, a former Federal firearms licensee pled guilty to violations of the Federal firearms laws as a result of selling firearms without completing any of the required paperwork. During the investigation, it was determined that the defendant purchased approximately 1,000 firearms without a valid firearms license, and he supplied firearms to the Vice Lords street gang. In addition, during the investigation, an ATF undercover agent purchased 10 firearms from the defendant without being required to complete any of the proper paperwork.

Chicago, Illinois

A suspect traveled from Chicago, Illinois, to Terra Haute, Indiana, and picked up 20 firearms from a Federal firearms licensee. Accompanying the suspect on this trip were a Cook County corrections officer and a cooperating informant. After obtaining the firearms, the suspect obliterated the serial number from 19 of them. ATF surveilled the three during the trip and executed a vehicle stop on them, recovering the firearms. The suspect admitted involvement in a trafficking scheme that resulted in 400 to 500 firearms with obliterated serial numbers being supplied to gang members and narcotics traffickers on the south side of Chicago. On June 30, 1995, the defendant pled guilty to dealing firearms without a license. The corrections officer was not charged.

Los Angeles, California

ATF initiated an investigation into the Main Street Crips street gang, who were believed to be responsible for a string of 21 burglaries from Federally licensed firearms dealers resulting in the theft of over 1,000 firearms. A number of gang members were arrested for these thefts as a result of ATFs investigation. Three defendants subsequently pled guilty in Federal court, and three were found guilty after trial in Federal court.

Birmingham, Alabama

In January 1993, ATF initiated a long term OCDETF investigation into the criminal activities of gang members who had been trafficking methamphetamine from California to Mississippi, Alabama, and other southern States for several years. During the course of the investigation a number of search and arrest warrants were executed resulting in the seizure of 700 grams of methamphetamine, 25 firearms, including assault rifles and semiautomatic pistols, $16,400 in U. S. currency, 10,000 rounds of ammunition, scanners, drug trafficking paraphernalia, and marijuana. The defendants were subsequently found guilty and in April 1995 the defendants received sentences of between 7 and 30 years in prison.

Detroit, Michigan

On September 22, 1995, a defendant, who is a member of the Best Friends gang, pled guilty to violations of 21 U.S.C. § 848(e) and 18 U.S.C. § 924(c). The Best Friends gang was Detroit's most violent large-scale distribution organization. Many of the members of this organization are convicted felons and used firearms to protect and facilitate the drug trafficking enterprise. It is anticipated that the aforementioned defendant's plea may influence some or all of the remaining eight defendants to plead guilty, too. On January 23, 1996, the defendant was sentenced to life imprisonment for violation of 21 U.S.C. § 848(e).

Greenville, South Carolina

In October 1989 ATF initiated a long term investigation into a 32 member armed narcotics trafficking gang responsible for the distribution of at least 300 kilograms of crack cocaine. This gang had been terrorizing the Greenwood, South Carolina, community for years with virtual immunity from prosecution. The number of violent acts committed by this organization were immense. A major characteristic of the group was their prolific use of firearms to assault, kill, and intimidate individuals. During the culmination of this case, 10 Federal search warrants and 32 Federal arrest warrants were executed. Furthermore, all assets acquired by this organization were criminally indicted and seized for forfeiture. This organization's assets were extensive and included: 68 vehicles, 4 boats, 2 motorcycles, 7 residences, 2 businesses, and over $200,000 in personal property, and U.S. currency.

There was a 100 percent prosecution rate with all 32 members of this organization pleading guilty. During the prosecution of this investigation, organization members threatened witnesses and law enforcement officials often utilizing firearms while they made their threats. The violations applicable to each member of the group includes 18 U.S.C. §§ 2(a), 371, 922(g), 922(o), 924(c), 1956, and 21 U.S.C. §§ 841, 846, 848, 856. The members of the organization received sentences ranging from 57 months to 10 years.

Question: I am concerned about the number of young people who are lured into joining gangs, and then become involved in criminal activity. In 1991, the Bureau of Alcohol, Tobacco and Firearms established the Gang Resistance Education and Training (G.R.E.A.T.) program to educate young people about gangs and help them resist being recruited into gangs. The G.R.E.A.T. program trains law enforcement officers to implement this curriculum of resistance, sensitivity, and self-esteem in schools. What are some of the successes of the G.R.E.A.T. program thus far in helping young people? To what extent is ATF implementing the G.R.E.A.T. program

in Colorado? Is it possible for ATF to expand its G.R.E.A.T. program in Colorado in Fiscal Year 1997?

Answer: Preliminary results from the national evaluation of the G.R.E.A.T. program are very encouraging. The cross-section and year one of the longitudinal study have been completed. The year one results indicate a positive impact on youth and a negative trend toward gang involvement and violence. In the state of Colorado 41 law enforcement officers are certified G.R.E.A.T. instructors. An additional six officers are scheduled to attend G.R.E.A.T. officer training (GOT) this fiscal year and four other officers are on our waiting list.

In FY 1996, no additional funds were appropriated to support additional G.R.E.A.T. projects. Funding continues to be available to provide no cost instruction for all qualified law enforcement officers seeking G.R.E.A.T. training.

Question: As we approach the one-year anniversary of the tragic Oklahoma City bombing, we are concerned that the resources of Federal law enforcement be sufficient to help deter such tragedies in the future. What percentage of bombings nationwide does ATF have jurisdiction over? What assets and expertise does ATF bring to the investigation of a bomb site?

Answer: ATF has primary, joint or parallel jurisdiction over virtually 100% of all bombing incidents nationwide.

The assets and expertise ATF brings to the investigation of a bomb site is both significant and multi-faceted. For example, ATF has four National Response Teams (NRT) organized geographically to assist State, local or other Federal agencies conduct scene investigations of a magnitude or requiring resources beyond their capabilities. Each National Response Team consists of personnel with experience and expertise unique to ATF, such as Certified Fire Investigators (CFI), Certified Explosives Specialists (CES), Explosives Enforcement Officers, Forensic Scientists, and Fire Protection Engineers. This team response capability can further be supplemented with explosives or accelerant detecting canines and their handlers and with audit and intelligence support. ATF maintains the ability to respond to any incident within 24 hours with national response vehicles containing specialized equipment, supplemented by the availability of mobile command post vehicles.

NRT members are trained and certified to investigate arson and explosives scenes that are determined by OSHA or EPA to be hazardous sites. ATF is the only Federal agency that has the training and ability to conduct these investigations. ATF's CFI's are experts in the realm of determining the origin and cause of fires, while our CES' are highly trained in handling explosives and in post blast investigations.

ATF's Explosives Incidents System (EXIS) is a vast repository of information regarding past reported explosives and arson incidents. This information can be readily retrieved to analyze similar incidents, components, motives, targets, etc. In addition, ATF has the unique ability to trace commercial and military explosives.

ATF currently has two special agents assigned to the Bombing Investigative

Subunit of the National Center for the Analysis of Violent Crime. These two agents develop "profiles" of bombers and arsonists in order to assist investigators.

The ATF National Laboratory and other ATF laboratory forensic scientists analyze evidence collected at explosives and arson scenes. Frequently, these examinations are made immediately, while the scene is still being processed.

Question: The Bureau of Alcohol, Tobacco and Firearms has jurisdiction over the enforcement of 18 U.S.C. 924(c), which provides mandatory minimum penalties for offenders who use or carry a firearm during and in relation to any federal crime of violence. ATF also enforces the Armed Career Criminal Act, 18 U.S.C. 924(e), which provides mandatory minimum sentences for an offender who possesses a firearm after committing three or more violent felonies or serious drug offenses.

ATF enforces these two powerful anti-crime statutory provisions through Violence Reduction Program. What are some of the successes has ATF had in enforcing these two provisions? Also, please provide the Subcommittee with a report on the number of career criminals apprehended under this program, including specific statistics from ATF activities in Colorado, and what impact this action has had on violent crime.

Answer: The enforcement of 18 U.S.C. Section 924(c) - Armed Drug Trafficking and/or Crimes of Violence, and 18 U.S.C. Section 924(e) - Armed Career Criminal Act fall under ATF's Achilles Program.

The Achilles Program impacts on armed violent crime by incarcerating that percentage of active armed violent criminals who are responsible for a majority of the violent crimes. Since 1989 there have been 20,111 defendants recommended for prosecution for armed drug trafficking, and 6,434 defendants have been recommended for prosecution as armed career criminals. In addition, 1,842 defendants have been sentenced to a total of 32,597 years in prison as armed career criminals; 5,131 defendants have been sentenced to a total of 29,803 years in prison as armed drug traffickers, and there have been 35 life sentences under these two statutes. Using the Achilles Program impact related performance measure formula, which meets the requirements of the Government Performance Results Act, it can be shown that the incarceration of 1,742 armed career criminals by ATF has prevented over 5 million additional crimes and $12 billion in crime-related costs that the public would have incurred had these criminals been left in society.

During FY 1995, ATF recommended for prosecution at least 52 armed drug traffickers and/or armed career criminals in the State of Colorado. To date in FY 1996 ATF has recommended for prosecution at least 26 armed drug traffickers and/or armed career criminals in the State of Colorado.

Some examples of Achilles Program investigations are as follows;

Pennsylvania

ATF and the Pennsylvania State Police investigated the rape and assault of a 10-year-old female and two young male companions by a drifter who held his victims

at gun point. Based on the description provided by the victims, the Pennsylvania State Police located and arrested the subject as he was walking along the highway and found the subject in possession of a loaded revolver. ATF investigated the drifters background, found he would qualify for enhanced sentencing under the armed career criminal act, and brought the case into Federal court. In April 1994 the defendant entered a plea of guilty to the charge. Based on his physical abuse of the victims and his lengthy criminal history, which includes aggravated burglary, burglary, child rape, child molestation, forgery, and theft, the subject was sentenced to life imprisonment without chance for early release.

Lewisville, Texas

In August 1995, a pawnshop in Lewisville, Texas, was burglarized resulting in the theft of 47 firearms and 100 blank checks. By investigating the cashed stolen checks, a subject was identified and arrested on a State arrest warrant for the burglary. During questioning, the subject admitted to burglarizing a pawnshop in Dallas in the spring of 1995 in which 75 firearms and jewelry were stolen. The defendant, an armed career criminal with a lengthy criminal history, was able to get out on bond and continue his criminal activities. In October 1995, ATF arrested the defendant for violations of the Federal firearms laws and the armed career criminal act stemming from the two prior gun store burglaries. At the time of this arrest, the defendant admitted to burglarizing the two stores and stealing the 119 firearms. The defendant stated that he sold all of his stolen merchandise to two unidentified Mexican males who transported the firearms to Laredo, Texas, and Mexico. In March 1996, the defendant was sentenced to 210 months' incarceration as a result of sentencing enhancement under 18 U.S.C. § 924(e).

Atlanta, Georgia

Between July and November 1994, a UPS employee in Atlanta, Georgia, stole a shipment of Glock semiautomatic pistols that were being shipped, via UPS to Glock, Inc., in Smyrna, Georgia. The subject then illegally sold these handguns to associates.

On November 8, 1994, the subject and an associate used stolen Glock pistols to carjack a woman's vehicle near Santee, South Carolina. The woman was abducted along with her infant son and tied to a tree in a remote location. The UPS employee fired two shots during this incident.

On November 20, 1994, the two aforementioned subjects used stolen Glock pistols to carjack another vehicle in Atlanta. The occupant of the vehicle was shot twice by the UPS employee while attempting to escape. The victim subsequently died from injuries.

On November 21, 1994, while driving the stolen vehicle, the UPS employee carjacked another vehicle that was driven by a woman. The woman was driven to a remote location and tied to a tree.

The UPS employee was identified through fingerprint analysis and DNA blood testing. Upon arrest by ATF, the assailants admitted to their participation in these incidents and subsequently pled guilty in Federal court. The first subject was

sentenced to 65 years' imprisonment for violation of 18 U.S.C. § 924(c). The second subject was sentenced to 60 months' imprisonment for each violation of 18 U.S.C. 924(c).

Miami, Florida

Eight subjects were arrested for armed drug trafficking and conspiracy. The subjects were members of an armed rip-off and home invasion gang. At the time of their arrests, the subjects were in possession of several firearms, including machineguns and silencers. In addition, several firearms were located in secret compartments of their vehicles. During the undercover investigation, the subjects attempted to "rip off" 400 kilograms of cocaine from an ATF undercover special agent. After their arrests and while being held in pretrial detention, three of the eight subjects attacked and intimidated a witness who was also incarcerated at that time. In 1995, all of the subjects were sentenced to 30 years' incarceration for use of a machinegun during the commission of a drug trafficking crime to run consecutive to 20 to 30-year sentences for the narcotics trafficking conspiracy.

QUESTIONS SUBMITTED BY SENATOR KERREY

Assistant Secretary for Enforcement, Jim Johnson

Office Budget and Staffing

Question: How many dollars and FTEs are budgeted in fiscal year 1996 for the Office of the Under Secretary for Enforcement?

Answer: For budget purposes, funding is not separated into individual offices within the Office of Enforcement. In the President's FY 1997 budget request, the FY1996 column reflects $6.265 million and 70 FTE for the Office of Enforcement (including the Office of Foreign Assets Control).

Question: How does this compare to the amount budgeted for in FY 1997?

Answer: The fiscal year 1997 President's budget request reflects $13.178 million and 96 FTE for the Office of Enforcement (including the Office of Foreign Assets Control). The increase of $6.913 million and 26 FTEs reflects the President's mandated initiative to enhance Cuban Embargo Settlements ($1.1 million and 13 FTEs); the transfer of funds and FTEs from the U.S. Customs Service to implement the International Trade Data System ($5.6 million and 13 FTEs); and, inflation and pay raises ($.2 million).

Question: How many FTEs are assigned to the Assistant Secretary's Office? Can you provide a detailed listing of staff by GS or SES grade? Specifically, what are their duties?

Answer: Five FTEs are assigned to the Assistant Secretary's Office:

Assistant Secretary	EX-4
Senior Advisor	GS-15
Secretary	GS-10
Staff Assistant	GS-9

Assistant Secretary - coordinates all Treasury law enforcement matters, including the formulation of policies for all Treasury Enforcement activities; ensures cooperation and proper levels of policies Treasury participation in law enforcement matters with Federal departments and agencies.

Senior Advisor - concerned with a wide variety of special legislative and congressional staff studies that relate to law enforcement and regulatory trade and tariff enforcement activities. Reviews and analyzes various enforcement acitivities, determining which programs/projects are of significant interest and recommends project options which enhance program performance in accordance with the policies of the Assistant Secretary (Enforcement).

Secretary - provides a full range of secretarial, typing and related suppport services.

Staff Assistant - performs work on various projects, task forces, and studies that affect Enforcement staff and administrative initiatives within the Department and the Office of the Assistant Secretary.

Question: How many detailees are assigned to the Under Secretary's Office? How does this compare to previous years? Can you produce a full listing of detailees and specify which agency they are from, the term of service, and function?

Answer: Detailees are not permanently assigned to a given office, but rather are used to perform tasks on an as needed basis. As in previous years, the Office of Enforcement has relied upon the bureaus to assist mostly with secretarial services and special projects. This is and has been standard practice. Currently, the Office of Enforcement has eight detailees from the various bureaus. The number of details fluctuates from time to time depending on the nature of the project, required expertise, and the ramifications on their parent law enforcement bureaus. During the Waco Review, EITC fraud study, Good O' Boys Roundup Review, and White House Security Review, a number of detailees were used due to the nature and short time frame of the projects. The term of service also varies, some for 30, 60, 90 or 120 days.

Question: How would you identify the functions of your Office as compared to that of the Under Secretary?

Answer: The Office of the Under Secretary is principally responsible for the development of long range policies and guidance which supports Treasury's overall law enforcement mission, as it affects both our domestic and international interests. In this capacity, this Office also serves as the coordinating focus for all Treasury law

enforcement matters as they pertain to federal, state and local agencies and international organizations. Specifically, the Under Secretary is responsible for negotiating agreements on behalf of the Secretary to engage in joint law enforcement operations and the exchange of operational/financial information pertaining to law enforcement functions.

The office is responsible for executing policies and law enforcement agreements developed by the Under Secretary. The activities include but are not limited to: a) providing Departmental oversight and supervision of Treasury's law enforcement bureaus (Alcohol, Tobacco & Firearms; U.S. Customs Service; U.S. Secret Service; the Federal Law Enforcement Training Center; and the operations and the activities of the Office of Foreign Assets Control, and the Financial Crimes Enforcement Network, and the Treasury Forfeiture Fund; b) developing, coordinating and monitoring law enforcement policy directives, consistent with the Under Secretary's guidance; c) developing and coordinating specific enforcement initiatives consistent with this guidance; d) establishing operational priorities and directing the allocation of resources in support of the Under Secretary's policies; and d) initiating and sustaining professional standards of conduct by all Treasury law enforcement personnel.

Question: Could you please provide a complete break down of the budget for the Under Secretary's Office, which includes the Assistant Secretary, by object class for both fiscal years 1996 and 1997?

Answer: For budget purposes, funding is not separated into individual offices within the Office of Enforcement. The breakdown by object class (in thousands) for the Office of Enforcement (including the Office of Foreign Assets Control) for both fiscal years, as reflected in the FY 1997 President's budget request, is as follows:

OBJECT CLASS	FY 1996	FY 1997
1100-Salaries	$4,458	$6,122
1200-Benefits	811	1,215
2100-Travel	247	683
2300-Rents	8	414
2500-Other Services	505	4043
2600-Supplies	18	136
3100-Equipment	43	385
9100-Confidential Expenditures	175	180
TOTAL	**$6,265**	**$13,178**

Question: Of the FTE assigned to this Office, how many personnel are criminal investigators or agents in the 1811 series?

Answer: The Office of Enforcement has no FTEs assigned to the 1811 series, but does have one detail from ATF in that series.

Question: Could you please provide the justification for the mix of staff with their current backgrounds and areas of expertise?

Answer: Staff within the Office Enforcement have three main areas of expertise required to carry out enforcement, trade, and regulatory policy and oversight responsibilities a) strategic/policy, b) operational, and c) finance and administration. Personnel with strategic/policy level backgrounds assist both the Under Secretary and Assistant Secretary in the development, review and assessment of enforcement matters and activities that have long range policy implications. These individuals both initiate, coordinate and respond to law enforcement issues that have congressional and operational (bureau) interest.

Personnel with operational backgrounds assist in the formulation/review of these policies by evaluating the feasibility of the proposed approaches/responses from a practical operational perspective. Several of these individuals (attached to the bureaus) also act in a liaison capacity between the Office of Enforcement and the enforcement bureaus they represent. Staff with operational backgrounds work closely with individuals with policy-level backgrounds to ensure policy and oversight activities are rooted in realistic operational scenarios.

Last, individuals with finance and administrative backgrounds are involved in personnel, contractual, and budgetary matters, as they pertain to the Office of the Under Secretary for Enforcement, thereby ensuring that enforcement policy is reflected in such activities and that adequate support is provided to enforcement bureaus.

Question: How many personnel are on detail to this Office from other Treasury bureaus? Could you provide this detail by agency?

Answer: Eight personnel are currently on detail to the Office of Enforcement from: FLETC 1; U.S. Customs Service 5; ATF 1; Justice Department 1.

Vehicles

✦ For the past several years, all of the Treasury enforcement agencies have complained that their fleet of vehicles for agent use is inadequate, a large percentage of the vehicles for agent use is inadequate, a large percentage of the vehicles are beyond the GSA 60,000 mile standard, and that they cannot purchase new vehicles because funds budgeted for cars have had to be reprogrammed to cover the costs of more urgent activities.

✦ Committee staff sent a questionaire to all of the Bureaus having 1811 agents (criminal investigators) asking: amount budgeted for vehicles vs. amount used; number of vehicles; home-to-work policy; age of vehicles; whether they were purchased or leased; cost of the vehicles; cost to equip the vehicles; and the cost to maintain the vehicles.

✦ From the responses, we found the following:

- IRS Criminal Investigations Division (CI), has the highest number of vehicles for 1811 agent use (3,332), has the highest cost to equip the vehicles ($9,790), has the largest percentage of vehicles having less than 60,000 miles (average mileage of 36,624); has the youngest vehicle fleet (average age of 3.37miles), has the largest budget for vehicles ($5.0 million), but has the highest cost for vehicle maintenance ($1,351 per vehicle per year).
- The Secret Service has the lowest budget for vehicles ($500,000 per year), its average age of vehicles is 6 years, its average mileage on vehicles is 58,000 miles, and its number of vehicles was the lowest, 1,621. The average cost maintain its vehicles is $1,100 per vehicle per year.
- The average cost to purchase vehicles is $17,000.
- For all bureaus, between 87% and 95% of all vehicles are purchased.
- The average cost for all agencies, with the exemption of IRS-CI to equip vehicles is $5,000.
- - The total vehicle budget for the 4 LE agencies in FY 96 was $13.2 million.

Question: Mr. Secretary, there does not appear to be a standard for vehicle budgeting, equipping, age, or maintenance. Why is there such a disparity among the Treasury bureaus?

Answer: The lack of adequate funding for vehicle replacements has forced bureaus to deviate from standard vehicle management practices as they relate to procurement, operations and maintenance. Each bureau is facing different enforcement and budgetary challenges yet they work within budgetary reprogramming authorizations to stretch their overall limited funds to meet vehicle needs. Depending on the urgency of other funding priorities, bureaus can be expected to react dissimilarly if their overall vehicle funding requirements are inadequate. Bureaus that have less pressing programmatic needs, especially as they relate to new initiatives, can be expected to reprogram more aggressively to restore vehicle funding shortfalls. Other bureaus have less flexibility in this regard because of the urgency of funding for other programs.

Question: Why is the cost to equip IRS vehicles twice that of the Secret Service, ATF, or Customs? In your view, is this justified?

Answer: The additional cost to equip IRS vehicles is a direct result of the two-way radio equipment which IRS installs in each enforcement vehicle. Besides IRS, almost all Federal law enforcement agencies are in the Very High Frequency (VHF) spectrum band. However, the IRS Criminal Investigation Division is assigned to the Ultra High Frequency (UHF) spectrum band because there is not enough radio spectrum available to move IRS into the VHF frequency range. Since IRS participates in numerous multi-agency investigations, it installs both UHF and VHF radios in its enforcement vehicles to allow communications both within the agency and with other law enforcement bureaus.

Question: Does it make sense to keep vehicles beyond the GSA standard life of 60,000 miles, especially when maintenance costs, on average are in the range of $1,100 per vehicle per year, for some, I am sure it is more?

Answer: No, it does not make sense to keep vehicles past the GSA standard life of 60,000 miles. However, because none of the Treasury agencies are funded at a level which would allow the replacement of all vehicles at the 60,000 mile standard, the average life of vehicle fleets has gradually increased and vehicle maintenance costs have also increased as a consequence.

Unless adequate funding is restored that would allow replacement at the designated GSA standards, maintenance costs will continue to increase in the future. This will leave Treasury bureaus with only two options, neither of which is attractive given the requirement for quick operational response times by enforcement agents: a) downsizing of the fleet, consistent with reduced funding availability and/or, b) reduced vehicle availability because of increased maintenance down times.

Question: Why do all Treasury Bureaus, predominantly, purchase vehicles instead of leasing them?

Answer: Although a recent comparison has not been undertaken, past comparisons have shown it to be more cost effective to purchase rather than to lease.

Question: Is there a need for Treasury agents to have all of their vehicles outfitted with "police package" equipment? if so, why?

Answer: Yes, it is necessary to equip all vehicles with " police package" equipment. Police package equipment provides two necessary components for law enforcement vehicles. First, the vehicles are equipped with heavy duty electrical systems necessary for the two-way radio communication equipment and warning lights. Second, the vehicles' handling, cooling acceleration characteristics are superior to normal vehicles and are necessary for safe and efficient law enforcement performance.

Question: How many vehicles, on average, are these agencies purchasing in a year?

Answer: Based on the Agency Report of Motor Vehicle Data (SF-82), average procurement of sedans for agent use by bureau over the past five years (FY 1991 - FY 1995) is as follows: 1) USCS - 299, 2) USSS - 229, 3) ATF - 288, 4) IRS (including CID) - 490, 5) FLETC - 31.

Question: Can you review the information the Committee received from its vehicles questionnaire and get back to us on what can be done to establish a more consistent policy which makes economic sense?

Answer: Yes. In addition we will review motor vehicles data submitted annually by the bureaus to the Department (Agency Report of Motor Vehicles Data,

SF-82) with the intention of evaluating vehicles replacement standards, and existing Departmental/bureau funding policies relative to those standards.

Base Funding

✦ Many Treasury law enforcement agencies have seen their base budgets erode over the years due to a lack of funding for pay raises, within-grade and career ladder promotions, rent, communications, administrative overhead reductions, and other mandatory actions over which the agencies have little control.

✦ As a result, Customs, ATF, Secret Service and others have eliminated FTEs attrited when vacancies occur because they do not have the funds to hire and retain new FTEs.

✦ This have hindered ability to ensure proper training, and provide basic equipment support. In addition, program funding has been pillaged to cover mandatory costs.

Question: Mr. Secretary, each of the Treasury law enforcement agencies have experienced base erosion over the years and the elimination of FTEs as a result. It may be politically advantageous to request funding for initiatives, but to fund initiatives while the base programs are suffering does not make much sense. This year, the agency budgets requests increases to restore funding to many object classes just to start the process of repairing some of this erosion. Why is Treasury proposing a whole host of new initiatives for these agencies in 1997 instead of funding to restore the base?

Answer: Fiscal constraints within the federal government have precluded sufficient requests to correct the base erosion. Additionally, operational emergencies, recent legislative and administrative factors have exacerbated a cumulative negative effect. The bureaus, the Department, and the Administration is trying to maintain a healthy balance between funding the base and proceeding with core mission strategies.

Program Reductions

Question: Mr. Secretary, what is the explanation for the general program reductions in agency accounts, like the $3.7 million reduction in ATF, the $7.5 million reduction in Customs, and the savings of $8 million in the Secret Service budget from the candidate nominee program?

Answer: A firm commitment to sound fiscal policy within a stringent budgetary environment balanced with the critical need to find resources to enable the bureaus to fulfill their mission in a satisfactory manner is the general reason why program reductions were made. Fulfilling our mission requires proper technology in order to share intelligence, and to communicate and provide other federal and local law enforcement with information. Each of our initiatives are critical to enhancing our mission.

Question: Won't these cuts just further reduce the agencies ability to meet program requirements?

Answer: No. We do not believe the program reductions and reallocations proposed in the FY 1997 budget will be detrimental to core operations.

Good O' Boys Report

✦ The Treasury citzens team appointed to review allegations of misconduct by Treasury agents, in particular, ATF, through their attendance at an annual "Good O' Boys Round-up" in Tennessee, recently issued a report making their findings.

✦ In addition, the Treasury Inspector General was tasked with conducting a review of whether any violations were committed and to recommend disciplinary action, if any.

✦ The Policy Review team made 15 recommendations, dealing wih disciplinary aciton to be taken against 31 ATF agents who participated repeatedly in the round-ups, and new rules to govern off-duty behavior by Treasury law enforcement personnel.

Question: Mr. Secretary, could you briefly summarize the findings of the Treasury Department's review of the Good 0' Boys round-up and tell us the status of any pending disciplinary action against Treasury employees?

Answer: The Department's review had two components. The Inspector General (IG) conducted a fact-finding investigation and the Office of Enforcement conducted a policy review which made fifteen recommendations. As for the facts, the IG found that no federal law enforcement officers engaged in bias-related conduct during the Roundups, and this is borne out by the report of the Department of Justice Inspector General. Some federal employees, however, were found to have witnessed racist behavior. As far as Treasury employees are concerned, the Department has referred those cases to the bureaus for possible disciplinary action.

As the Secretary stated on April 2 regarding the policy review, "the fifteen new policy recommendations reach the issues of racism and bias in hiring, training, evaluation, and discipline. Simply put, the new rules will make clear that we won't tolerate abjectly racist or biased conduct on- or off-duty and that we wish not to hire people who have engaged in racist or biased conduct before seeking a job with Treasury."

Secretary Rubin has directed the respective law enforcement bureaus to move expeditiously to take all disciplinary actions that are proved necessary by the IG's report. Specifically, he has ordered the bureaus to direct disciplinary inquiries of (1) current employees who witnessed racist conduct or racially insensitive behavior at the Roundups and may not have taken appropriate action; and (2) current employees who may have misused government property in connection with the Roundups. In addition, because both the Treasury and Justice Inspectors General found that racist acts occurred repeatedly at the Roundups after 1988, Secretary Rubin has ordered the

bureaus to review personnel files and provide counseling for all employees who attended more than one Roundup after 1988, even if they have asserted that they did not witness any racist conduct. In all, thirty-one current employees have been referred to the bureaus for disciplinary inquiry and/or counseling. (Fifteen for disciplinary inquiry and sixteen for counseling and a review of their personnel file.)

The bureaus have begun their disciplinary processes. Because each bureau has its own disciplinary process, and because each must and will abide by all constitutional and civil service rights and regulations, the process is not a uniform one. The Office of Enforcement continues to monitor the progress of the disciplinary process at each bureau and has established an implementation committee.

Question: Realistically, how can Treasury monitor the conduct of its employees when off duty? Statutorily, how can you require certain behavior standards for off-duty conduct.

Answer: The Department examined these issues very carefully and the Report of the Policy Review, which is over two hundred pages long, and has been provided to the Committee.

The Review's recommendations go well beyond proposals for discipline for off-duty misconduct. The recommendations relating to hiring, training, and evaluation are considered the first and best way to prevent off-duty misconduct. The vast majority of Treasury law enforcement personnel understand that law enforcement is a public trust, and that their private conduct must be beyond reproach. The Review's recommendations relating to hiring, training, and evaluation seek to systematize that message and ensure that our law enforcement personnel continue to abide by this high standard. The recommendations regarding discipline of off-duty misconduct will work in the same way as all current regulations dealing with misconduct. The point is to ensure that our managers and supervisors, as well as our line law enforcement officers, know that racist misconduct will not be tolerated, on-duty or off-duty. All of the recommendations were formulated by the Office of Enforcement and the office of General Counsel working together. The Department engaged in careful legal analysis and members of the Citizens Review Panel--with backgrounds as diverse as the former President of the ACLU, the former executive director of the NAACP Legal Defense and Education Fund, and two former Police Chiefs-unanimously endorsed the final recommendations.

Statutorily and constitutionally, Treasury may hold law enforcement officers to a higher standard of conduct than its other civil-servants. This standard is discussed in detail in Chapters Four through Seven of the Report.

The budgets for law enforcement for both Justice and Treasury have increased dramatically over the last 10 years.

Question: Given that budgets for both departments will become increasingly tight over the next few years, what are you doing to facilitate coordination between law enforcement agencies, so that forces operate as efficiently as possible?

Answer: Despite the success that our bureaus have had in meeting their law enforcement challenges, we continue to explore ways to improve service to the public. These enforcement efforts have been enhanced greatly by the leadership and support for law enforcement provided by Secretary Rubin. Under the Secretary's leadership, Treasury's Office of Enforcement provides policy oversight, coordination, guidance and support. I meet regularly with the bureau and office heads, and make myself available. Also, I accompany Deputy Secretary Summers when he meets regularly with his counterpart at the Department of Justice to ensure coordination between the Treasury and Justice bureaus.

Question: Other than an increase in arrests, which we can logically expect from increasing the number of law enforcement officers, do you have any statistics that demonstrate crime rates decrease as a result of adding law enforcement officers?

Answer: It is our view that effective and swift enforcement has a significant effect on deterring crime. We have lots of anecdotal evidence but we do not scientific analysis. For example, in 1995 Customs introduced Operation Hard Line to strengthen and tighten the ports of entry. The results on the Southwest border after one year have been dramatic. Port running incidents declined by 42 percent.

Federal Law Enforcement Training Center

Budget Overview - Fiscal Year 1997

Question: The increased request of $2 million and 8 FTEs for the workload rise in training demands, is this needed to fund the training of Border Patrol agents? If not, what other agencies do you anticipate will be sending increased numbers of students to FLETC facilities in fiscal year 1997?

Answer: The FLETC provides training for law enforcement personnel of 72 participating agencies. In FY 1996, the FLETC was funded for about 7,300 basic students amounting to over 51,000 student-weeks, while the participating agencies requested training for over 14,000 basic students and almost 100,700 student-weeks, leaving a shortfall of 6,700 students and 49,700 student-weeks. The participating agencies are requesting training for over 11,200 basic students amounting to 80,000 student-weeks in FY 1997, leaving a shortfall of about 4,000 students and 29,999 student-weeks. Therefore, the FY 1997 increase is required because the FY 1996 funding level was 29,000 student-weeks too low. The FY 1997 training requests are actually <u>less</u> than what was requested in FY 1996.

Question: With respect to the distance learning initiative, combined funding of $3,950,000 and 2 FTEs has been requested. Can you provide specific information as to how this money will be used to provide computerized training from FLETC?

Answer: The $3,950,000 funding request is for three separate projects. By far the largest of the three is installation of a fiber optic network that, when complete,

will provide a wide area computer network for all the buildings, organizations and functions on the FLETC's campus at Glynco, Georgia. It will not have the capability of exporting training beyond the Glynco facility. The current plan is that it will be used for administrative and training support functions. It is recognized that it will be used as a training distribution tool within the boundaries of the Glynco center.

Of the $3,950,000 required only $800,000 and two FTE have been proposed for Distance Learning and computer based training (CBT). These are two separate projects. A total of $450,000 and two FTE are earmarked for distance leaning. These funds will cover the one time expense of purchasing a satellite uplink antenna and related electronic equipment to make it operational. This will complete the distance learning facilities that were jointly developed last fiscal year by the FLETC and the U. S. Customs Service. The two FTE are devoted to the operation of the uplink and studio. As proposed here, the distance learning initiative uses satellite technology to deliver live training programs to audiences simultaneously all over this country and has the capability of delivering international programming as well.

The CBT initiative requests $350,000 to fund the development of CBT training programs and the expansion of the FLETC small 24 person computer training lab. Currently the FLETC has two FTE devoted to CBT activities. To date all of the projects that have been developed are used at the Glynco center. None have been exported or used for distance learning applications. It is possible to use CBT as a distance learning tool, but it would require significantly more resources than are requested in this initiative. The CBT developed to date and the funding requested in this initiative will be used only to continue the enhancement of our basic curriculum, and not expand into CBT distance learning. The concept enables the FLETC to do more effective training and additional training without extending the length of the training programs.

Question: Specifically, who will benefit from this training?

Answer: In terms of distance learning, all 72 participating agencies, FLETC advanced students, and some basic students will benefit. These facilities are available to the participating agencies. The USCS is already heavily involved in using these facilities. They have broadcast approximately 50 training programs from Glynco in the past year. The Immigration and Naturalization Service has scheduled approximately 20 events this coming year. Other agencies are interested in using these facilities. Adding a Government owned satellite antenna will significantly reduce the cost of this service. Some agencies are waiting for this phase to be complete before joining. The CBT portion of this initiative will primarily benefit basic students, but all other students will benefit as well.

Question: Does FLETC currently have other training programs that are provided via computers or satellites?

Answer: The FLETC has five computer based training courses that are part of the Criminal Investigator (CI) Training Program. Since there is no time allocated in the standard training schedule for these five subjects, basic CI students must acquire this information on their own time but are subsequently tested on these subjects as

part of their comprehensive exam. This expands the training day at no cost to the Government. There are two judgmental programs that have not yet been completed. One in the Firearms Division deals with escalation of force and officer survival. Another multimedia program is being completed for the Driver and Marine Division. It requires the student to make judgmental decisions about a variety of driving situations. Several more programs are in the reproduction stage. All are planned for use in the FLETC basic training programs.

Currently there are no FLETC programs delivered via satellite. However, USCS and INS have developed and are offering such programs and there is a training program under development to train FLETC instructors regarding how to convert their traditional classroom materials and presentation techniques to distance learning presentations.

Question: What do you envision will be the total cost to fully implement this type of training?

Answer: This initiative will provide the necessary funding and staffing to complete the major capitol expenses for distance learning via satellite. There will be a periodic need to make changes due to technology, but this initiative plus the facilities which have already been completed at Glynco provide the basic capability. There will be ongoing annual operational expenses and costs to enhance this capability as technology changes. These costs will amount to approximately $400,000 annually.

Computer based training at the FLETC is in an embryonic stage. It will be several years before the program matures to a point where CBT is a significant portion of any basic or distance learning programs. To make a significant impact on training conducted at the FLETC will require a substantial increase in staffing and in funds to design, develop, and distribute a larger number of CBT programs. Development of CBT programs requires specialists and to mount a CBT effort sufficient to have a substantial impact on residence training at the FLETC would require four to six million dollars annually. It would be comparable to our Facilities Master Plan in scope.

Question: Once implemented, wouldn't this program lessen the need for a significant number of students to travel to FLETC facilities? What specific campus will be most impacted?

Answer: This question was partially covered above. Given staffing and funding now available there is no planned reduction in the number of students traveling to our facilities due to the development and implementation of CBT. CBT at it's current level of development is used to enhance and free up time in the basic curriculum. This time is then used to add new programs or enhance the current offering. Although to date it has not shortened the students time in residence at the FLETC, CBT has already allowed additional courses to be inserted into the training programs while the overall length of the students residence at the FLETC has remained the same. CBT has averted an increase in training time and in that way has saved time in residence. Without a major effort comparable to the FLETC Facilities Master Plan there will be no impact on the length a student resides at the FLETC.

Technology And Computer Training

Many Federal law enforcement training agencies assign their students lap top computers to use during, and throughout their basic training period. Many Federal law enforcement training academies also emphasize the need for computer based training in their basic curriculums since computers are so widely used by the criminal element.

Question: Is it fair to say that the Federal Law Enforcement Training Center is at a "state of the art" level with regard to computer training in its basic curriculums?

Answer: Yes, but the state-of-the-art changes rapidly and it is a challenge for the FLETC to keep up with those changes. Currently, the FLETC has four computer classrooms used for basic training. Each classroom is equipped with 25 Pentium-class computers, laser printers (one per two students), and appropriate software. Applications presented in basic training include Microsoft Windows, Microsoft Office Suite (Word, Excel, Access, and PowerPoint), case management software (ZYIndex), and investigative-specific software. Each classroom has a training-based network in which all student work stations are controlled by the instructor. Introduced and demonstrated to basic students (but not elaborated on) are digital scanners, optical character recognition (OCR) software, and digital cameras. A local area network that will integrate all computer classrooms and the instructors is now being installed.

Particular care is taken at the FLETC to assure that elaborate, unwieldy, or immature technology is not used in basic training. All courses presented to basic students emphasize technology that is available, proven, and widely used in law enforcement applications.

Question: How much computer-related training is available to students during their "basic" training vs. Advanced training? Can you please tell the Committee what type of computer training is available to students in basic training, by software name (e.g., WordPerfect, LOTUS, dBASE, etc.)?

Answer: The basic Criminal Investigator (CI) program contains a six-hour block of instruction titled 'Introduction to Computers'. This course emphasizes the use of computers for law enforcement applications and provides the students with an overview of Windows 3.1, applications training in Microsoft Access (data base management), and Word (word processing). They are also introduced to Excel (spreadsheet), ZYIndex (multiple document indexing system), and the principles of digital imaging and scanning. Additionally, a 2-hour course is provided in "Electronic Sources of Information" with in-class demonstrations and problem solving. Also, the after hours computer based training courses mentioned earlier are offered as part of the CI program.

The U.S. Border Patrol basic students receive a 4-hour orientation to computers which includes an overview of Microsoft Windows, and Microsoft Word.

The FLETC maintains a computer laboratory which is available to all staff and students. The lab is a classroom of Pentium-class computers with laser printers. The

lab is always staffed with a qualified instructor. Considerable use is made of the lab as students from all basic programs prepare investigative reports, affidavits, reports of interviews, memoranda to supervisors, and similar tasks.

Advanced computer training at the FLETC is extensive . The Advanced Microcomputer Training Program is a 1 week program devoted entirely to the Microsoft Office Suite. The Advanced Financial Fraud Program (1½ weeks) provides substantial training in ZYIndex and Quicken (for investigative accounting).

Other advanced computer training programs include:

Criminal Investigations in an Automated Environment (1½ weeks)
Computer Evidence Analysis (1 week)
Microcomputers for Investigators (1½ weeks)

These programs make exhaustive use of the Norton Utilities as a tool for forensic evidence analysis, QuickView Plus, a file viewer program which allows over 250 different file types to be analyzed without the installation of the generating proprietary program (WordPerfect, Excel, etc.), investigative specific programs such as Maresware (from IRS Internal Security), and the FCIC Utilities (provided by the Federal Computer Investigations Committee).

Another advanced program. Seized Computer Evidence Recovery Specialist (SCERS), devotes 3 weeks and substantial after-class hours to training. It exposes the student to (and distributes) 26 different commercial computer programs in order to qualify the students as Computer Seizure Specialists. These programs are largely esoteric and include such obscure titles as Anadisk, the CPR Utilities, and others.

In addition to the FLETC basic and advanced training, the agencies also have computer classrooms at the center. The Customs Service has 4, Internal Revenue Service and Alcohol, Tobacco, and Firearms have 3 each, while the Immigration and Naturalization Service and the U. S. Marshals Service has 1 each. These classrooms are used to conduct agency specific computer training.

Question: Does the FLETC, like other major law enforcement training centers the Committee has looked into, have a computer resource center with access to the Internet and other "state of the art" facilities to provide support to its students?

Answer: A qualified yes. Limited telecommunications capability at the computer training site make wide-scale access to the Internet impractical at the present time. However, in one advanced training program (Telecommunications Crime), all students work extensively with the Internet and isolated electronic bulletin boards. Internet training is not provided to basic students.

The Electronic Sources of Information course is presented in several basic and advanced programs. For the 2-hour version of the course, students observe demonstrations of network use in a simulated investigation as several electronic sources are accessed: America On-Line, CBI Infotek, DCIC, AutoTracker, and CompuServe. In the 4-hour version of the course, students are provided accounts

and actually access these services in order to gain familiarization with the concepts of on-line data searches.

The FLETC also has a well established gateway into the Treasury Enforcement Computer System (TECS). This exceptionally large network and data base is maintained by the U.S. Customs Service. Although several agencies (U.S. Customs, Immigration Service, ATF, etc.) use this gateway in advanced and follow-on basic training, it is not now used in any FLETC basic training programs.

Question: Do representatives from the FLETC interact with officials from the FBI's training facility in Quantico, VA and other state and Federal Law enforcement training facilities to compare notes on "state of the art" technologies, such as computer "search and seizure" training?

Answer: Yes. Recently, there was agreement with the FBI to collaborate on projects of mutual interest, including leadership and law enforcement training needs assessments. Further, the FLETC serves on DOJ's Law Enforcement Training Working Group chaired by the FBI and the Technology Policy Council chaired by NIJ. The Director of the FBI Academy serves on FLETC's Advisory Committee for the National Center for State and Local and International Training.

The FLETC is associated with many professional organizations and interacts regularly with other Federal and State agencies in order to maintain a current perspective on computer crime and investigative issues. The FBI Academy in Quantico is represented on the Consultant Group which convenes annually to address these critical issues. Also, the FLETC frequently uses guest instructors from Quantico in computer investigations courses.

The FLETC was instrumental in the formation (in 1986) of the Federal Computer Investigations Committee, a loose alliance of computer investigative professionals from dozens of Federal and State law enforcement agencies. The FLETC is represented by active membership in and/or oversight of several organizations:

The Florida Association of Computer Crime Investigators
The International Working Group on Computer Forensics Evidence Analysis
American Society for Industrial Security
American Society of Law Enforcement Trainers
Communications Fraud Control Association
High-Tech Crime Investigations Association
Interpol's European Computer Crime Committee
Association of Certified Fraud Examiners
International Association of Computer Investigations Specialists
Society of Police Futurists

In addition, the FLETC maintains an informal but close relationship with the Air Force Office of Special Investigations, various Inspectors General and the IG Academy at the FLETC, the Internal Revenue Service (Criminal Investigations

Division) and the Department Of Justice, General Litigation and Legal Advice Section.

The FLETC is developing an expanded relationship with the National White Collar Crime Center, several state law enforcement training academies and has partnered with the Communications Fraud Control Association (CFCA) and the Cellular Telecommunications Industry Association (CTIA) to attempt to maintain a "state of the art" position and ability in developing technologies.

Question: Can you please provide the Committee with the type of database software used (by brand name and make) for the scheduling of classes and other events at FLETC?

Answer: The database software used by the FLETC for scheduling classes and other events is INFORMIX, FoxPro, and dBASE.

Question: Can you please provide the Committee with the exact number of computers currently used by FLETC in their administrative operations, specifically listing the brand name and type of computer by microprocessor, speed in megahertz, and hard drive type.

Answer: Desktop and laptop computers in use by the FLETC for administrative operations are as follows (all have Integrated Drive Electronics (IDE)):

Number of Desktops	Brand Name	Microprocessor/ Megahertz	Number of Desktops	Brand Name	Microprocessor/ Megahertz
5	DELL	586/120	8	ACER	486/33
1	Gateway 2000	586/120	5	HIMS	386/40
6	ACER	586/90	5	COMPAQ	386/33
54	DELL	586/90	16	DTK	386/33
1	HITACHI	586/90	16	HIMS	386/33
2	Gateway 2000	586/60	6	Microage	386/33
15	DELL	486/100	3	OMNI	386/33
17	DELL	486/66	4	Pony	386/33
2	INTEL	486/66	1	QUME	386/33
20	ACER	486/66	3	SWAN	386/33
6	DELL	486/50	26	WIN	386/33

Number of Desktops	Brand Name	Microprocessor/ Megahertz	Number of Desktops	Brand Name	Microprocessor/ Megahertz
1	C.S.	486/33	7	ACTECH	386/25
3	COMPAQ	486/33	1	AST	386/25
286	DELL	486/33	2	C.S.	386/25
3	Greenleaf	486/33	5	CAT	386/25
4	HIMS	486/33	30	COMPAQ	386/25
3	INTEL	486/33	1	DECSTATION	386/25
4	Magitronic	486/33	27	DYNEX	386/25
1	Media	486/33	1	EVEREX	386/25
1	Micronix	486/33	1	Goldseries	385/25

4	OMNI	486/33	4	HIMS	386/25
1	Prolinea	486/33	10	IMPULSE	386/25
1	SWAN	486/33	17	Jabert	386/25
6	WIN	486/33	11	SWAN	386/25

Number of Desktops	Brand Name	Microprocessor/ Megahertz	Number of Desktops	Brand Name	Microprocessor/ Megahertz
3	WIN	386/25	4	DFI	286/16
5	COMPAQ	386/20	9	SWAN	286/16
1	CS	386/20	6	DFI	286/12
2	Action	286/33	1	Nationwide	286/12
29	COMPAQ	286/25	2	Northgate	286/12
10	COMPAQ	286/20	11	SWAN	286/12
10	CAT	286/16	8	WIN	286/12
3	CCI	286/16	9	TANDY 1000SX	

Number of Laptops	Brand Name	Microprocessor/ Megahertz	Number of Laptops	Brand Name	Microprocessor/ Megahertz
6	DELL	586/90	1	LEADING EDGE	386/25
7	COMPAQ	486/33	2	Twinhead	386/25
41	DELL	486/33	4	COMPAQ	386/20
7	Imperial	486/33	1	Librex	286/25
4	NEC	486/33	3	Clincher	286/20
1	TI	486/33	22	COMPAQ	286/20
9	Toshiba	486/33	36	Zenith	286/20
2	VERSA	486/33	4	NEC	276/12
26	Zenith	486/33			
1	Librex	386/33			

Laptop computers are used for performing work while on travel and are available to instructors for use in classroom presentations. Servers or host computers are as follows (all have IDE drives):

Number	Unix Host Computers
1	HP 9000 Minicomputer
2	HP Apollo Workstations
3	AT&T 3B2 600
14	COMPAQ 386/33
3	DELL 486/33

Not Currently in Service

3	DELL	486/33

Novell Servers	Brand Name	Microprocessor/ Megahertz
2	DELL	586/90

1	COMPAQ	486/50
2	DELL	486/50
1	COMPAQ	486/33
1	Vektron	486/33
1	No Name	486/33
1	DELL	486/33
1	SWAN	386/25
1	WIN	386/25

Not Currently in Service

12	DELL	586/90

Administrative functions performed by these servers and host computers include not only typical office automation but also production of training materials, such as slides and videotapes, and scheduling of facilities, instructors, training aids, and housing.

Question: Can you please provide the Committee with the exact number of computers currently at FLETC for use by students in their basic training, specifically listing the brand name and type of computer by microprocessor, speed in megahertz, and hard drive type.

Answer: There are four computer classrooms available for basic students:

- 24 DELL XM590, Pentium 90 MHZ Computers with EIDE drives, CD-ROMS and modems
- 24 DELL XM590, Pentium 90 MHZ Computers with EIDE drives, CD-ROMS and modems
- 24 WIN Pentium 60 MHZ Computers with EIDE drives, CD-ROMS and modems
- 24 CAT 386 33 MHZ Computers with IDE drives and modems

In addition, there are laptop computers available for advanced training programs:

30 DELL Latitude XP 486, 75 MHZ Computers with IDE drives
25 Zenith SupersPort 386, 33 MHZ Computers with IDE drives

Question: Is the FLETC currently using a LAN (local area network) to link its computer database? If not, why not?

Answer: The FLETC has several isolated LANS which have not as yet been connected into a wide area network (WAN). Lack of funding for cabling and telecommunications equipment is the primary reason for this.

Question: Can you please describe for the Committee how the FLETC has used the Internet to its advantage during the last fiscal year?

Answer: The FLETC has a waiver from the Treasury Department to access the Internet through CompuServe. A study group of approximately 20 users has explored both CompuServe and the Internet to determine the potential use for the Center.

The FLETC has used the Internet for the following purposes:

- Technical support services - particularly for the computer support staff.
- Participation in forums with peer groups. This has the potential to produce a savings in travel funds.
- Research of current events and issues.
- E-mail. With the exception of a couple of people, this is our only means of using E-mail to communicate externally.
- Providing a Home Page on the World Wide Web.
- Keeping abreast of latest changes, guidance, legislation.
- Disseminating information to the public.
- As a basis for future plans -- both training and administrative.

Master Plan Funding

In 1988, the Congress instructed FLETC to complete a Master Plan for its facilities. In June, 1989, a plan was submitted which called for construction of new facilities at a projected cost of $86 million. The latest Master Plan update, which is currently being finalized, estimates the cost to complete construction at $120,000,000.

The Congress has appropriated $52 million for Master Plan improvements--which leave approximately $68 million in improvements unfunded.

Question: Can you please update the Committee on the Master Plan? It would be helpful if you provided the Committee with a report on the progress that has taken place during the last Fiscal Year.

Answer: The Master Plan was originally submitted to the Congress in June 1989. It has subsequently been updated twice. The first update was submitted in August 1992. The second update has just been completed and it will be forwarded to the Congress as soon as it is printed. The latest update includes 32 projects totaling an estimated $112 million for Glynco; 16 projects for $7.5 million for Artesia; one project at Marana for $.3 million; and one project at Davis-Monthan for $1.3 million. The Marana and Davis-Monthan centers have subsequently been closed. The total Master Plan estimate is $121 million.

During FY 1995, the following actions have taken place in regards to the Master Plan:

- o Started construction on two Classroom Buildings at Glynco
- o Started construction on Driver/Firearms Facility at Artesia
- o Started development of architectural and engineering design on the Burn Building at Glynco
- o Started procurement process for the Driver Training Ranges at Glynco

Question: What has yet to take place to complete the Master Plan? What is the next most pressing item that needs to be funded?

Answer: A total of $53 million in projects has been funded through FY 1996. This leaves $68 million in projects yet to be funded as follows:

PROJECT	ESTIMATED COST
GLYNCO:	
Activities Center	$2,150,000
Dormitory No. 2	7,402,000
Renovate Registration Building	300,000
Renovate Student Center	400,000
Library/Learning Resource Center	3,500,000
Shotgun Training Area	500,000
Practical Exercise Area	2,900,000

PROJECT	ESTIMATED COST
GLYNCO:	
Dormitory No. 3	8,750,000
Auditorium/Conference Center	700,000
Classroom Building	7,825,000
Warehouse Expansion	2,700,000
Athletic Fields	600,000
Renovate Maryland Residence Hall And Temporary Classroom Building	2,600,000
Registration Facility	750,000
Visitor's Center	75,000
Tactical Response Range	17,900,000
Firearms Multi-Purpose Building	2,372,000
Indoor Firearms Range 2	2,036,000
Burn Building	3,500,000
ARTESIA:	
Physical Training Expansion	500,000
TOTAL	$67,460,000

Essentially, Phase I at Glynco and Artesia have been funded. Phases II and III at Glynco are unfunded. The next most pressing needs are: Dormitory No. 2, Firearms Multi-Purpose Building and Warehouse Expansion.

Question: Doesn't it seem a contradiction to you that on the one hand you cannot afford to fund Master Plan facility improvements, and on the other, you have had to rely on temporary facilities to meet the training demands of your participating agencies?

Answer: The surge in training requests for FY 1996 particularly by the Immigration and Naturalization Service (INS) is unprecedented in the FLETC's history. The volume of INS training only became known this year following the reconciliation of certain Congressional and Administration border control initiatives. The timetable established by the INS for conducting its training necessitated the temporary acquisition of a portion of the former Charleston Naval Yard. Coupled with this development has been the increased training requirements resulting from events surrounding the tragedy at Oklahoma City and the White House Security Review, both of which occurred in FY 1995. While there has been progress in facility construction based on previously appropriated funds, the long lead time for procurement, design and actual construction limits our capability to move quickly. By the end of FY 1996, several new facilities will be available at Glynco which will help to lessen the need for the continued use of a temporary training site. By the end of FY 1997, the Artesia Center too will have some increased capacity. Still these capacity increases may not be sufficient and the FLETC will continue to monitor and assess the impact of workload projections and request funding as warranted.

Question: In the long term, wouldn't it make more economic sense to construct the facilities you need at current center locations to meet the training demands of the agencies?

Answer: Over the long term, it certainly is in the best interest of the Federal Government to invest construction dollars for needed facilities at the FLETC's two existing permanent sites in Glynco and Artesia . The efficiencies, effectiveness, and fiscal savings already recognized from consolidated training at the FLETC are significant. A dollar spent on the FLETC is a dollar used to support the training needs of over 70 separate agencies. Proliferation of training sites is wasteful and counter-productive to the documented achievements at the FLETC over the last quarter century.

Question: In reference to the Master Plan, what improvements have been made, if any to essential instructional technology for basic training courses--such as computer based training, asset forfeiture training, etc.?

Answer: The projects completed to date in the Master Plan that made improvements in "essential technology" include: Physical Techniques Expansion, Indoor Firearms Range 1, and Outdoor Firearms Range. Projects under construction, such as two classroom buildings, will provide needed classroom space including classrooms that are "cable ready" to handle computer based training, asset forfeiture and financial fraud. Projects yet to be funded include: Library/Learning Research Center, Practical Exercise Building, Tactical Response Range, Firearms Multi-

Purpose Building, Indoor Range 2, and the Burn Building.

Davis-Monthan Facility Update

Question: Can you please give the Committee an update on the closing of the Davis-Monthan facility. Specifically, is the facility still open? When do you anticipate full closure?

Answer: The Davis-Monthan Center is closed. The last training program graduated in September 1995. In October 1995, the FLETC started the process of relocating personnel
and closing down the center. There is still some minor site restoration work to be done. This work should be completed in the very near future.

Question: Does FLETCstill have personnel at the Davis-Monthan facility for closing down purposes? How long are they expected to be there?

Answer: The FLETC does not have any personnel at the Davis- Monthan facility.

Question: Are any further close down costs expected for the Davis-Monthan facility during this fiscal year?

Answer: All work has been completed except the minor site restoration work as stated above. This will be completed within the funds previously provided, therefore no additional funding will be required to complete the closedown.

International and Foreign Training

Question: In light of the opening of the International Training Center in Budapest, Hungary, has FLETC considered sending instructors to Budapest vs. the reimbursement of foreign officer travel to Glynco?

Answer: The FLETC sends instructors to the International Law Enforcement Academy (ILEA) for all five sessions held each fiscal year. During the second week of each 8-week session, a FLETC instructor teaches management courses such as Introduction to Management, Leadership, Personnel Management, Management of the Environment, and the Future of Policing. The fifth week of each session, a FLETC instructor teaches Financial Investigation courses and Link Analysis. The FLETC instructor also assists the IRS with other financial training.

Question: What interaction, if any, has taken place with the State Department and/or Federal Bureau of Investigation regarding cooperation in training at the International Training Center in Budapest, Hungary?

Answer: Officials from the State Department, FBI, and Treasury bureaus, including the FLETC, meet regularly in Washington, DC at International Working Group meeting, and ILEA Steering Group meetings. An orientation is conducted at Quantico, prior to each ILEA session, by the University of Virginia. This orientation

provides instructors with information regarding the ILEA, the culture of the countries of the students to attend the upcoming session, and critiques from prior classes. On another level, daily contact between FLETC instructors and their FBI counterparts occurs by phone and fax regarding the course content and planning.

Question: What interaction, if any, has taken place with the State Department and/or Federal Bureau of Investigation regarding cooperation in training at the proposed International Training Center in Panama, South America?

Answer: At this time, there has been no official interactions between the FLETC and the State Department or the Federal Bureau of Investigations regarding a training center in South America. However, we are aware of the State Department's interest in establishing such a Center and are considering our options/capability to participate.

Environmental Compliance

Approximately $710,000 is requested in FY 97 for environmental mitigation projects such as asbestos, lead paint, underground storage tanks, lead contamination from firearms training, solvents used in law enforcement photography training, and inks used in printing training materials.

Question: Instead of revised figures every year dealing with environmental issues, wouldn't it be more economical for one environmental study to be conducted at the Glynco, Georgia site (with the State of Georgia) to find the finite environmental problems associated with the site?

Answer: An Asbestos Survey, Lead Survey, and an Underground Storage Tank Inventory were completed in 1995. In the interim, we are doing our own research on the facility to fix the environmental problems we identify. As you know, the Center is located on a former Naval facility and the FLETC inherited some of the past environmental problems. We do not believe it would be advantageous to the Center to have the State come in and mandate to us what they consider environmental problems, especially since we are not a superfund site. We believe we should continue efforts to identify, inventory, prioritize, and remediate based on internal risk assessments.

Question: Do you have any idea what the total environmental problem is at Glynco, GA and what it will cost to mitigate the problem?

Answer: That is an impossible question to answer since there are no pertinent facility records left by the Navy, and the FLETC must address each environmental issue as it is identified. Our first baseline survey was the Environmental Compliance Assistance Survey Report (ECAS) in 1995, and we have only addressed about 25 percent of that at this time.

Training Instructors

Question: Are instructors from the respective Treasury Bureaus who transfer

to FLETC to teach required to give up their 1811 status? If so, why?

Answer: There are two types of Federal employees who become staff at the FLETC. Those who are detailed to the FLETC remain on the roles of their parent agency and retain their title, series, and grade. Those who apply for a vacant position and become permanent staff members of the FLETC assume the title, series and grade of the position for which they voluntarily applied. The FLETC does have 1811 instructor positions, therefore, qualified individuals may retain that status.

Question: Does the FLETC find it difficult to attract high caliber detailees from the respective Treasury bureaus?

Answer: All participating agencies have been most cooperative in providing fully qualified detailees who meet the needs of both the FLETC and our customers.

Student Training Estimates

Question: Has the FLETC established a more accurate model to project the number of students it will train for the upcoming year?

Answer: The FLETC relies on the 72 participating agencies to provide their training requirements. In effect, the participating agencies know their requirements better than anyone else. Because of a tendency over the last several years of initial projections exceeding what is ultimately trained, the FLETC has started discounting the participating agency projections. Hopefully, this discounted projection will be close to what is actually trained.

Question: Once again the Committee would like to ask what assurance you can give that the projection of 29,549 students for fiscal year 1997 is an accurate one?

Answer: The projection of 29,549 students is based on training requirements submitted to the FLETC from the participating agencies. These projections were provided in the Spring of 1995 for FY 1997--this is 1½ years before the fiscal year starts. Because the budget process is so elongated, the FLETC cannot provide any assurance that all 29,549 students will be trained. The biggest factor affecting the participating agency projections is the subsequent changes made to their budget requests at all levels--including Departmental, OMB, and Congressional. Essentially, if budgets and/or FTE are reduced, then the training will not materialize. If they increase, as is occurring with DOJ/INS, the projections may be low.

The Immigration Initiative -- INS And Border Patrol Training

The Committee is concerned about FLETC's ability to keep pace with the basic training of border patrol personnel. The border patrol is planning an extensive hiring initiative this year.

Question: Does the FLETC plan on a backlog of border patrol training due to the extensive number of proposed hires this year?

Answer: Indications are that we will be conducting a significant amount of training for the Border Patrol for the foreseeable future. In FY 1996, the FLETC plans to train 1,104 Border Patrol agents at Glynco and 330 at Charleston (which is expected to be ready by the fourth quarter). The projected number for FY 1997 at both locations is 1,350, but that number may be increased depending upon the outcome of pending legislation in Congress. In addition to the Border Patrol training, INS has requested large increases for other INS personnel categories. We believe that by using both Glynco and Artesia as well as the temporary site in Charleston that we can meet the INS needs as we now know them.

Question: You mention in your statement that you are providing this training from a temporary facility at Charleston, South Carolina. There has been some mention of the FLETC looking at another facility closer to the border to train border patrol personnel. Has the FLETC looked into this issue?

Answer: Prior to the selection of Charleston as a temporary training location, other locations were considered including one at an active military base in Texas and close to New Mexico. That site was discounted for a variety of reasons during the review of potential sites by INS and FLETC officials. The FLETC already has a center in Artesia, New Mexico that is used heavily for INS basic and advanced training as well as other Federal agency training in the southwest. Artesia has increased its capacity recently with temporary structures to help accommodate the projected INS training buildup.

Question: Will the Artesia facility be used solely for the training of Border Patrol personnel? What other arrangements have been made to solve this problem? What is the cost to FLETC?

Answer: Border Patrol training will be conducted at Glynco and Charleston. In the Senate report that accompanied the FY 1996 appropriations for INS, Congress specifically directed that Border Patrol training not accommodated at Glynco be done at Charleston. No Border Patrol basic training is expected to be done at Artesia for several reasons, including the high cost and administrative burden that would be placed on INS splitting its Border Patrol training among three sites.

As additional facilities come on line at Glynco this year, it is expected that more Border Patrol training can be completed at Glynco. Artesia, too, is capable of further expansion for non-Border Patrol basic training and other INS training. It remains to be seen how the workload for INS, the Border Patrol, and the other Federal agencies materializes as to how much can be accomplished at the FLETC sites in the out years. Congress has directed INS and the FLETC to submit a joint plan as to the shutdown of Charleston by March 1997. The FLETC expects to meet this requirement.

The cost to the FLETC for the temporary site at Charleston is limited. INS is responsible for funding facility improvements, service contractual agreements, other operation costs, and certain costs for travel and per diem of FLETC instructors detailed to the Charleston location.

Medical Services

Last year, at FLETC's request, this Committee agreed to lift FY 95 language which restricted health care services for students at FLETC facilities to "first aid and emergency medical services." The Committee had many concerns last year regarding the lifting of this restriction. In spite of the Committee's concerns, the Committee agreed to abide by FLETC's request to lift the restriction.

Question: Can you give the Committee a status report on the medical services provided at the FLETC during the past year?

Answer: Since the appropriations language was changed to again allow the FLETC to provide short term medical care, the Worker's Compensation claims have drastically dropped and student absenteeism due to medical problems has been lessened considerably, since students no longer have to go into town to acquire medical care. Additionally, there is a much greater consistency in the treatment given to students since the care is being provided by the FLETC Health Unit.

Question: Can you provide the Committee with number of cases treated during the last fiscal year, and costs associated with such treatment?

Answer: The total number of students given medical care by the Center's Health Units from October 1, 1995, through March 31, 1996, was 5,943. This number does not include the initial health screening conducted by the nursing staff. The direct cost for these services are estimated to be $170,000. This cost includes all salaries, benefits, and medical supplies used. If the FLETC did not have the authority to provide this service, it is estimated that the participating agencies would have incurred costs of over $550,000 for medical care.

Question: Can you tell the Committee if the FLETC medical facility is equipped for "first responder" type service, "advanced life support" type service, or other if applicable? Please describe for the Committee whether the equipment meets State and Federal standards for the type of facility being operated at the FLETC?

Answer: The FLETC does have a First Responder Team and Kit that contains all the necessary medical equipment to stabilize a patient until further medical care can be acquired. Additionally, the FLETC utilizes a portable Laerdal Heart Start 3000 QR defibrillator which has a self-analysis system to insure proper use. Only medical staff who are properly trained utilize this equipment. Further, the FLETC Medical Officer is fully trained in Advanced Life Support. All equipment utilized is appropriate for the type facility being operated.

Representation Funding

Last year, the Committee authorized up to $7,000 for representation expenses. In fiscal year 1997, FLETC is asking that this be increased to $9,000.

Question: Can you please provide the Committee with a detailed accounting of how this money was spent during the past fiscal year?

Answer: Essentially, the funds were spent in three areas: refreshments, mementos, and the 25th Anniversary Celebration of the FLETC. The refreshments totaled approximately $4,000 and were for various meetings, training conferences, and special ceremonies such as Award of Excellence, Honor Graduate, Black History Month, Hispanic Heritage, etc. Mementos totaled approximately $2,000 and included ball caps, T-shirts, portfolios, pens, coffee mugs, etc. The remaining $1,000 was spent in support of the celebration of the FLETC's 25th anniversary.

Vehicles

Your appropriations language requests authority to purchase not to exceed 52 police type vehicles, without regard to the general purchase price limitation.

Question: How many police type vehicles do you currently have? What is the purchase price?

Answer: The FLETC has 120 police type vehicles. The FY 1995 average price was $11,000.

Question: Why is the purchase price waiver needed ? What would be the effect if it were denied?

Answer: Based on the increased cost over the past four years, and since General Motors no longer manufactures full size police package vehicles, new and used full size police package vehicle prices have increased approximately 30%. We project that our FY 1996 vehicle purchases will average $11,800 each. In FY 1997 and beyond, we project there will be further large increases in used police vehicle prices due to the lack of supply versus demand for the product.

If the request were denied, some training could not be conducted due to a lack of training vehicles. Decisions would be required to identify which agencies and programs would be denied the opportunity for driver training. At this time, we cannot predict how many agencies and programs this would effect without knowing exactly how many vehicles we can purchase based on monies available and restrictions.

Question: Can you tell us why you believe you need an increase in this fund? If not provided, what specific activities will you be unable to cover?

Answer: Without the increase, law enforcement driver training would be severely impacted resulting in monetary losses from increased accident rates, vehicle repairs and replacements by agencies, lost time due to injuries from accidents, death of officers/special agents, death benefits and increases in tort claims against the agencies who train at the FLETC. The severity of these incidents would depend on the number of agencies and programs impacted by our inability to purchase enough training vehicles.

The specific activities that could not be covered cannot be specified at this time without knowing exactly how many vehicles we would be able to purchase under the

current appropriations language. At the time, decisions would have to be made as to which agencies and programs would have driver training eliminated.

Base Shortfall

The Committee has some concern that some bureaus have relied heavily on funding out of certain initiatives and Violent Crime Reduction Trust Fund monies to pay for activities associated with base funding (that should come out of the Salaries and Expense Account). Specifically, once certain funds not associated with the base funding become unavailable, the Committee is concerned that a shortfall would take place, i.e., not enough monies left to pay for authorized FTEs.

Question: Can you please tell the Committee whether your base is adequately funded; specifically, can you support all of your authorized FTEs in fiscal year 1997 from the base (S&E Account), excluding any other funding from initiatives, VCRTF, etc.?

Answer: The FLETC is requesting 479 direct FTE in the FY 1997 budget. Of this total, 470 FTE will be funded from the S&E account (or base) and 9 will be funded from the Violent Crime Reduction Trust Fund. We would not have the funds in our base to support these 9 FTE's if the crime funds are discontinued.

United States Secret Service

White House Security

Program enhancements for fiscal year 1997 include $21,184,000 and 177 FTEs for additional security enhancements related to Presidential protection and White House security. Of that amount, $18,870,000 and 277 FTEs will be included in the S&E appropriation, with the balance of $2,314,000 provided through the Violent Crime Reduction Trust Fund (VCRTF).

Question: Has the closure of Pennsylvania Avenue, in front of the White House, helped reduce the nature of the threat to the President?

Answer: One of the eleven recommendations of the *White House Security Review* was "Rerouting Vehicular Traffic Around the White House Complex and converting Pennsylvania Avenue to a Pedestrian Mall." This recommendation is key to protecting both the President and the White House Complex from explosive devices. These measures have allowed the Service to increase its Uniformed Division presence outside the Complex fence, as well as implement other security enhancements and more closely monitor individuals outside the fence, rather than be concerned with vehicular traffic.

Question: What specifically will this additional funding and FTE's be used for in fiscal year 1997 for White House security enhancements?

Answer: The additional FTE's will allow the Service to hire additional Uniformed Division officers to replace positions at the White House which are currently being created utilizing overtime. The additional FTE's will also allow for necessary officer training time; the hiring of technicians to operate and maintain the security enhancements being installed at the White House Complex; the hiring of clerical support, to free up Uniformed Division officers and technicians currently performing administrative duties; and the hiring of additional special agents to increase the staffing of protective divisions.

The additional funding will allow the Service to continue to implement the recommendations of the *White House Security Review*, including upgrading of the command and control center at the White House.

Question: Can you prioritize funding for these activities?

Answer: Specific prioritization of the recommendations of the *White House Security Review* is difficult, since implementation sometimes depends on outside entities. Upgrading the command and control center for the White House is ongoing, and should be completed in FY 1997. The completion of the plan to reroute traffic around the White House, and other recommendations of the *White House Security Review* are dependent upon final approval of the *Comprehensive Design Plan for the White House and President's Park*. We are working with the National Park Service and the other entities involved in the process, and will integrate the security recommendations within the final plan. In the meantime interim security measures are in place.

Question: What will be the impact if this funding is not provided?

Answer: The Service believes that it is crucial to the new security scheme at the White House to implement the security initiatives which were recommended by the *White House Security Review*. Due to regular budget cuts over the past several years, the Service no longer has the flexibility within its budget to accommodate new initiatives. Therefore, if funding is not approved, the Service will be forced to make reductions in other important program areas.

Question: How much money has been spent so far from the fiscal year 1996 appropriation for White House Security?

Answer: Although the Service was not appropriated any funding in FY 1996 specifically to implement changes in White House security, there has been some Crime Bill funding identified for this purpose. To date $2,616,000 has been obligated for White House Security.

Candidate Nominee protection Status

Approximately $43 million was appropriated in FY 1996 for candidate protection activities for the 1996 Presidential campaign. $5.1 million was appropriated for the 50th anniversary of the United Nations General Assembly in New York, and $3.2 million was appropriated for the summer Olympics in Atlanta. No surplus is expected from the monies appropriated for activities related to the UN-50 and the 1996 Olympics in Atlanta. A possible surplus may be expected from the $43 million associated with the 1996 Presidential campaign.

Question: How much money do you anticipate spending on the campaign, and how much do you anticipate the surplus to be?

Answer: When formulating the FY 1996 campaign budget, the Service assumed that the activity level would require 934 candidate/nominee protective days. The current estimate is that only 508 protective days will be required. The current cost estimate is $23.8 million, leaving a surplus of $19.2 million.

Question: If there is a surplus for the 1996 Presidential Campaign, how will it be reprogrammed?

Answer: The Service is proposing to reprogram a portion of the funding budgeted for, but not required, for the presidential campaign.

The excess funding will be used to pay for the extraordinary level of overtime at the White House (due to the additional posting of officers resulting from the closure of Pennsylvania Avenue); to fund the protective effort surrounding the unplanned visit of Pope John Paul to the United States last October; to fund cost overruns for protective activities related to the 50th Anniversary of the United Nations General Assembly; and to fund extraordinary travel and overtime costs, generated by the higher than usual level of travel of the President of the United States.

Republican And Democratic Conventions And Olympics

The Secret Service will be faced with the security challenges posed by the two nominating conventions and the Olympics this summer.

Question: Do your projected costs appear to be accurate at this time?

Answer: The conventions are estimated to cost $5,050,000. At this time this projection appears to be accurate.

Currently, the cost for the Summer Olympics is over budget. The Service budgeted $888,000 to rent hotel rooms in Atlanta. Because of the high demand for a limited number of rooms, the Service was forced to rent hotel rooms in thirty-day blocks. Due to this, the Service, to date, has committed $1,900,000 to securing hotel rooms in Atlanta. However, the Service is hoping to sell back rooms that are not needed.

Violent Crime Trust Fund/FY 1997 Program Changes And Requests

Of the $28.7 million requested for Fiscal Year 1997, the Secret Service is requesting $325,000 for PANTEX, $1.0 million for replacement sedans, $100,000 for replacement surveillance vans, $57,000 for replacement "follow-up" vehicles, $1.4 million for armored limousines, and $1.8 million for a mainframe upgrade.

Question: Why is funding for vehicle purchase, maintenance, and replacement sought out of the Violent Crime Reduction Trust Fund vs. from base funding (salaries and expenses account)?

Answer: Although funds for vehicle purchases and some equipment would normally be part of the base budget, due to other funding constraints, there have been no reousrces available to fund some vehicle and equipment costs in the past fiscal year. With the increase in VCRTF resources available to Treasury in Fy 1997 over FY 1996, additional funds were available for Secret Service use to purchase vehicles and equipment.

Adjustment Of Non-pay Base Resources From Salaries And Expenses Account To The Violent Crime Reduction Trust Fund (VCRTF)

The Secret Service is requesting an adjustment of non-pay resources of $3,032,000 to be funded through the Violent Crime Reduction Trust Fund and not from the Service's Salaries and Expenses account.

Question: What are the non-pay resources that are sought through the Violent Crime Reduction Trust Fund (VCRTF)?

Answer: This funding will be used for services, supplies, and equipment previously funded under the Salaries and Expenses appropriation.

Question: Can the non-pay resources which are sought to be transferred to the Violent Crime Reduction Trust Fund from the S&E account be rationalized with the original intent of the Violent Crime Reduction Trust Fund, which was to fund traditional law enforcement initiatives?

Answer: In determining funding priorities under the Violent Crime Reduction Trust Fund, the Administration hoped to do several things:

-- First, it was hoped that where possible the VCRTF funds could be used to fund one-time purchases or extraordinary costs not normally borne by a bureau. Due to the uncertainty of the availablity of the VCTRF beyond FY 2000, it was our hope that the large amounts of recurring base costs, especially FTE, not be built into the Crime Bill budget proposal. Accordingly, a number of costs related to FTE were reporgrammed from the Crime Bill accounts to bureau base accounts (e.g. White House Security) and a number of one-time expenses were proposed to be funded out of the Crime Bill.

Examples of these one-time Secret Service expenses to be funded by

the VCRTF in 1997 include: the costs related to equipment to upgrade White House security, and upgrades to the Secret Service mainframe.

-- Second, consistent with the Crime Control Act authorization for the Department of the Treasury, the Service focused on providing funding for "activities that will result from enactment of this Act." Although this provision is not further defined in the Act, we have relied on past appropriations actions by Congress to draw guidance as to what would be appropriate to fund out of the VCRTF.

In the past, Congress has appropriated VCRTF funds for Secret Service efforts which had been part of the Secret Service base budget. For example, in the FY 1996 appropriations act, VCRTF funds were used to fight overseas counterfeiting, assist forensics (missing children), and to continue efforts against financial fraud (Operation TRIP) . In other Treasury bureaus, Congress has provided VCRTF funds for programs typically part of "base requests" (e.g. ATF GREAT program administrative costs).

Examples of expenses included in the FY 1997 President's budget which have in the past been part of base funding include the proposals to fund Operation TRIP and the missing children program.

-- Finally, although funds for vehicle purchases and some equipment would normally be part of the base budget, due to other funding constraints, there have been no resources available to fund some vehicle and equipment costs in the past fiscal year. With the increase in VCRTF resources available to Treasury in FY 1997 over FY 1996, additional funds were available for the Secret Service to purchase vehicles and equipment.

Base Restoration

The Secret Service is seeking $1.7 million in base restoration for Fiscal Year 1997.

Question: Is the $1.7 million for base restoration a realistic figure?

Answer: The $1.7 million, coupled with the $16.3 million added by the Congress last fiscal year to the Service's base payroll accounts, does cover the base shortfall as it existed last year. However, the underlying cost increases - unfunded longevity pay raises and career ladder promotions - that created this shortfall, and which continue to add to it, have not been addressed. Further, there is also a reduction of $4.0 million to the payroll accounts proposed for FY 1997 in anticipation of savings in overtime and personnel transfer costs. If these savings are not realized the base payroll accounts will remain deficient. Also, additional administrative cost reductions were taken in the Service's base non-payroll accounts last year, and further reductions are proposed in these same accounts in FY 1997. Should these non-payroll accounts not realize the savings demanded by these budget reductions, it may be necessary to reprogram funding from the Service's base payroll accounts to these non-pay accounts

Question: Can you please tell the Committee whether your base is adequately funded; specifically, can you support all of your authorized FTEs in fiscal year 1997 from the base (S&E Account), excluding any other funding from initiatives, VCRTF, etc.?

Answer: At this point in time it is unclear as to whether or not the Service's base budget for staffing will be sufficient in FY 1997. Although the FY 1997 budget requests an additional $1.7 million for payroll base restoration, it also proposes a reduction of $4.0 million to the pay and benefits accounts in anticipation of savings in overtime and employee transfer costs.

Further, the final administrative cost reductions of $5.718 million under Executive Order 12837, coupled with the base reduction of $7.646 million to this same non-pay portion of the Service's budget in FY 1996, will present a stiff challenge. It will be very difficult for the Service to both achieve a staffing level equal to its authorized ceiling, and provide the services and equipment needed by the workforce to meet mission requirements.

Question: Was the $16.3 million appropriated in FY96 for FTE restoration used for FTE restoration, and if so, has the base for FY97 been increased to reflect the increased FTE level?

Answer: The $16.3 million appropriated in FY 1996 for FTE restoration has been used for that purpose. The base for FY 1997 reflects the increased FTE level.

Question: Is the Secret Service willing to sacrifice certain initiatives and projects to achieve full base restoration?

Answer: The Service has no initiatives in the FY 1997 Budget Request which could be sacrificed. The initiatives in the FY 1997 Budget Request are essentially non-discretionary requirements, and to sacrifice them for full base restoration would be counter-productive.

Overseas Counterfeiting

Question: In light of the GAO report, does the Secret Service plan to change its method of tracking overseas counterfeiting? Specifically, will the Secret Service change any of its existing tactics in an effort to improve its ability to detect the true amount of counterfeit U.S. currency overseas?

Answer: The Secret Service has changed the way it statistically gathers data pertaining to overseas counterfeiting. In the past, all overseas counterfeit was reported together in a category labeled "appearing abroad." A program is now underway to differentiate between the counterfeit that is seized prior to circulation, and the counterfeit that was passed on the public and subsequently seized. Additionally, the Secret Service continues to broaden its liaison contacts with police and banking institutions in order to obtain more accurate and more complete information.

Question: Can you explain to us the reason the State Department denied the requests for certain overseas postings? Can you please tell the Committee what has been done since this report was sent to us to get these critical overseas positions filled?

Answer: Of the 28 positions requested by the Secret Service, 17 have been approved by the respective Chiefs of Mission, through the State Department; and two additional support positions have been agreed upon, for a total of 19 new Secret Service positions overseas. The two additional positions resulted from the need for Foreign Service National investigators to work with Secret Service agents in Milan and Hong Kong.

Of the 11 requested positions not yet approved, two are awaiting further consideration by the State Department. They are the second agent positions in Bogotá and Hong Kong. Three positions in Moscow, and one in Ottawa, are the subject of discussions that involve the construction of new embassy facilities at both locations. Planning for the new facilities already include floorplans for Secret Service personnel.

The request for three positions in Mexico City has been denied because of space considerations at that location; one additional agent position in Bangkok has been denied due to financial concerns as expressed by the Ambassador; and the one additional agent position in Manila has been denied due to the Ambassador's reported opinion that it is not necessary.

Question: To date, how many of the requested 28 permanent overseas positions are in place?

Answer: To date, five of the positions are in place. They are located in Nicosia, Montreal, and Bogotá. By the end of this summer, the additional 14 approved positions will be in place in Nicosia, Milan, Bonn, London, Paris, and Hong Kong. Personnel for each of those positions have been selected, and are in the process of relocating themselves and their families to the new posts of duty. The balance of the employees are being recruited from among the American dependent community, or as Foreign Service Nationals.

Question: Is it a fair statement to say that it is less efficient and more difficult to conduct an investigation overseas by sending task forces on temporary assignments to overseas locations (vs. permanent staffing)?

Answer: Permanent staffing is essential to establishing and maintaining the professional and personal relationships necessary to conduct any investigation. Without those basic relationships, valuable investigative time and effort is expended establishing contact and rapport with the appropriate foreign officials at the expense of the investigation itself. Long term temporary assignments also cause significant hardships on employees and their families.

Question: Below are four excerpts from the U.S. Government Accounting Office report entitled, "Counterfeit U.S. Currency Abroad," dated February, 1996. Would you please submit written explanations or comments for the record addressing each of the four GAO comments and evaluation, as follows:

1) "...the actual extent of counterfeiting cannot be determined because of the criminal nature of this activity."

Answer: It is impossible to know how much counterfeit a printer produces until it is seized by the police or passed on the public. Counterfeit currency hidden away is nothing but worthless paper. However, the extent of counterfeit in circulation can be accurately assessed from certain known data.

For example, the Federal Reserve estimates that $180 billion of the $394 billion in circulation is in $100 notes circulating abroad. Last year the Federal Reserve processed $23 billion in $100 notes (230 million notes), or about 13% of the $100 notes in circulation abroad. The Federal Reserve detected an average of 55 counterfeit notes per million notes received from abroad. At that rate, the total amount of counterfeit that would be detected by the Federal Reserve, if all $100 notes in circulation abroad were processed by the Federal Reserve, would equate to $9,900,000 (99,000 notes).

2) "...counterfeit-detection data may be a reflection of where the Secret Service focuses its efforts."

Answer: It is true that the Secret Service receives more accurate and complete data from areas where its investigative efforts have been focused. However, the Service has historically concentrated those efforts in areas where counterfeiting activity occurs.

3) "...detection data for high-quality notes, which may more easily circumvent detection and reporting abroad, may be even less representative of the actual extent of the problem."

Answer: The Secret Service does not agree with this statement. If, in fact, high-quality notes were not being detected abroad, then the Federal Reserve should be detecting large quantities of these notes in foreign deposits. The Federal Reserve detected only 55 counterfeit notes per million notes examined, and high-quality notes were only a fraction of that small amount. Further, the Secret Service has observed that the foreign governments and commercial banking institutions are capable of detecting even high-quality counterfeits.

4) "...increases in the counterfeiting detection abroad may be due to a number of factors other than increased counterfeiting, such as improved information gathering and reporting. Also, counterfeit-detection data fluctuate over time, and one large seizure abroad can skew the data."

Answer: There is no doubt that improved information gathering and reporting translates into an increased amount of counterfeit reported, and that one or two large

seizures can skew data. However, for the past several years the Secret Service has seen a sustained increase in counterfeit seizures, much of which occurred in European countries where information gathering and reporting has been consistent.

Question: The GAO report noted that, "...almost all of the foreign financial organization officials we met with in September 1994 had little or no contact with Treasury and/or Secret Service officials before that time." Would the Secret Service comment on this statement?

Answer: In most foreign countries, host government police agencies control most official liaison contacts with foreign banking organizations. Therefore, Secret Service agents do not have extensive personal contact with high level banking officials; however, the Service does focus its training and detection efforts on mid-management officials and employees, through the cooperation of the local police. These are the people that actually handle currency and detect counterfeit. In the past two years, the Secret Service has conducted over 300 currency identification and detection seminars for law enforcement and banking representatives from 81 countries. More than 100 of these seminars were attended by representatives of foreign banking institutions.

Question: How much of the $28.7 million requested from the VCRTF for FY 1997 will be spent for overseas counterfeiting?

Answer: The Service's $28.7 million requested from the VCRTF for FY 1997 assumes continuation of the $5.0 million in funding available for anti-counterfeiting efforts in the FY 1996 VCRTF appropriation. Most, if not all, of this funding will be used for overseas anti-counterfeiting efforts.

Question: How much of the VCRTF money allocated for overseas counterfeiting went to staffing? Specifically, how much of the VCRTF money will eventually be funded out of the base?

Answer: Of the $4.8 million for anti-counterfeiting obligated from the VCRTF in FY 1995, approximately $2.7 million was spent on staffing. This funding is current available only from the VCRTF, no funding for this additional staffing has yet been placed in the Service's Salaries and Expenses appropriation base, and the Service has no assurance that it eventually will be.

New Headquarters Building/Move

The Secret Service is requesting the creation of a new account, an "Acquisition, Construction, Improvement and Related Expenses" (ACIRE) account, for the interior build-out of their headquarter's building which was funded through GSA in fiscal year 1993.

Question: What is the status of the new construction of the Secret Service Headquarters? How much money has been spent to date?

Answer: The site for construction has been purchased and the location of the

Secret Service headquarters building on that site has been approved by the National Capital Planning Commission. The design of the building is nearly complete. The award of the foundations contract is scheduled for June and ground breaking is scheduled for July of this year. The construction will take approximately two years to complete, leading toward a phased occupancy by the Secret Service beginning early in calendar year 1999. Expenditures to date from the Federal Buildings Fund total $31.6 million; to include costs associated with site acquisition, building design and construction management.

Question: Specifically, what interior buildout activities, which are the responsibility of the Service, are required and at what cost?

Answer: The Federal Buildings Fund provides base building funding which covers the site purchase, foundations construction, and base building design and construction. Features not provided for through the Federal Buildings Fund, which are the responsibility of the Service, include data and voice telecommunications, furniture, specialized security requirements, relocation planning, above standard interiors, emergency/backup power, specialized moving requirements, and special agency equipment. To provide for these features, the Secret Service requires $29,165,000 in 1997.

Question: When must this funding be provided for the build-out?

Answer: All funding identified must be provided in fiscal year 1997, much of it in the first quarter of the fiscal year. Each line item coincides with a critical milestone in the overall project schedule. Throughout the project, the Service repeatedly revisits and confirms its required funding levels as well as the timing of each requirement; therefore the Service is confident that the funding requested in 1997 to support the construction of its new headquarters building is required specifically that fiscal year.

Question: Why can't it wait until after the foundation is laid, as a supplement to the proposed contract to be let in 1996?

Answer: Two construction contracts will be awarded for the new building. In June of 1996, the foundations contract will be awarded and in early fiscal year 1997, the superstructure contract will be awarded. The design/construction process that GSA is employing for this building provides for the entire building, to include all interior features, to be designed and bid under one umbrella contract. Therefore, funding for all interior features must be in place at the time the construction contract is awarded during the first quarter of fiscal year 1997.

Question: What will be the impact if this additional funding is not provided?

Answer: A reduction to the Service's fiscal year 1997 headquarters consolidation budget would be detrimental to the progress of its move, since each line item coincides with a critical milestone in the overall project schedule. A delay of funding could potentially render the building, or portions of the building, unusable by the Secret Service. A resulting delay in occupancy would force GSA to enter into

costly lease extensions. This scenario would bring with it a substantial financial loss to the federal government (double rental payments, liability fees for not vacating current space, etc.). Significant operational hardships to the Secret Service would result from a delay in occupancy as well.

Question: How would you rank this project in relation to your other initiatives for FY 1997?

Answer: The construction of the new headquarters building is an extremely high priority for the Service. Only the initiative for implementing changes in security in accordance with the *White House Security Review* is a higher priority.

Bureau Of Engraving And Printing Theft/Security

The Secret Service conducted, at the request of this subcommittee, a security review of the Bureau of Engraving and Printing. This study was requested as a result of a high profile theft in 1994. In this case, a supervisory employee of the Bureau was arrested for the theft of $1.7 million in "test" currency from a vault. The Secret Service review enumerated a set of recommendations to the Bureau so that security at the facility could be perfected. Despite these recommendations, several thefts have occurred within the past year from the Bureau.

Question: What is the status of your investigation into prosecution of the Bureau of Engraving and Printing employee who stole $1.7 million in test currency?

Answer: The former Bureau of Engraving and Printing (BEP) employee has been sentenced to 27 months in prison, three years supervised release, and two hundred hours of community service. The investigation was closed by the Secret Service on May 19, 1995.

Question: What security changes have you implemented since this crime took place?

Answer: There were 343 observations and recommendations given to BEP by the Secret Service survey team. According to the BEP approximately 60% of the recommendations have been implemented to date.

Question: Have you had any other theft incidents this year?

Answer: There have been two thefts from the BEP since the security survey was completed. A theft of a total of $60,000 resulted in four individuals being arrested; three plead guilty; and one is the subject of a continuing investigation.

As a result of an attempted theft of $20,300 in U.S. postage stamps, a former employee plead guilty and is awaiting sentencing.

Question: Can you provide the Committee with a general overview as to the severity of any deficiencies and recommendations you have made to improve security?

Answer: The review showed that, although management had invested over $35 million in security and accountability systems since 1989, it had given a higher priority to meeting increasing operational demands. This decision led to a critically understaffed, and unacceptably high-risk security program. Although financial investments were made, there was a lack of emphasis on product security training for BEP employees. There was insufficient oversight of many basic security measures, allowing routines to be circumvented or not implemented. Some product shortages or overages were not properly reconciled, and there was an inadequacy in the frequency and methods of the audits and physical inventories conducted.

The Secret Service recommended that the BEP Office of Security review and rewrite their Security Manual and, where necessary, gather input from all divisions to establish clearer and more concise security guidelines.

Further, the Office of Security and the Office of Management Control should work with each division to improve and update internal control and accountability procedures. Management and Security personnel should bear the responsibility for communicating internal control and accountability procedures to all employees.

Management and Security personnel should also aggressively identify and document violations of security policy. Corrective responses to violations of security policy must be consistent in order to achieve a deterrent effect.

Question: Can you please tell me what, if any mechanism, is in place to ensure that the recommendations are being followed?

Answer: A Memorandum of Understanding between the Secret Service and the BEP requires that 18 months following completion of the survey (mid-1996), a review of the implementation of the recommendations made with the survey be conducted.

Entitlement Fraud And Treasury Recipient Integrity Program (TRIP)

In October of 1995, the Secret Service submitted a status report on Operation TRIP. The report noted, among other things, that the Secret Service would make an attempt to bring the inspectors general together with the entitlement program managers from the respective bureaus to talk about systematic flaws in the system of disbursement and oversight that need to be fixed in order to prevent fraud from being perpetuated.

In the TRIP report, certain technological and financial issues were noted. In the technical sense, formatted data may not be compatible with computer systems within the participating agencies. In the financial sense, the cost factor involved in computer programming time is an issue.

Question: Can you please update the Committee on any progress the Secret Service is having toward improvement of the technical and financial problems raised in the report on TRIP?

Answer: Benefit and annuitant verification financial issues and technical problems relating to compatible computer matching programs were first discussed by the USSS in an Operation TRIP Task Force meeting hosted by the Service on March 22, 1995. In attendance at that meeting were representatives of the various benefit program agencies. To address some of these issues, an interagency conference, known as Federal Agencies United Against Fraud, will be held May 22-23, 1996. Topics of discussion will include: state and federal coordination, technology applications in computer matching, and legal and policy issues in interagency computer matching.

Question: It seems that for TRIP to work effectively, other agencies must cooperate fully with the Secret Service (Social Security Administration, IRS, etc.). Has there been any problem dealing with other agencies when working a TRIP? Is there anything which you see that Congress can do to help streamline your dealings with other agencies?

Answer: The Secret Service has worked successfully with the Department of Defense (DOD), Defense Finance and Accounting Service (DFAS), and with the U.S. Railroad Retirement Board (RRB), Office of Inspector General (OIG) in past and present TRIP verification projects. The Service's attempts to achieve greater participation from the larger government program agencies (i.e.; Social Security Administration, Department of Veterans Affairs, Office of Personnel Management) have been met with mixed success.

Question: Can you please tell the Committee the status of Operation Mongoose; does it look like it will be as successful as the Philippines program?

Answer: Due to the success realized by the Philippines TRIP, the Secret Service has continued its efforts to coordinate additional verification activity with the DOD DFAS, and OIGs in other overseas venues. The current program, referred to as Operation Mongoose (July 1995 - September 1996) has as its objective the verification of 25,000 overseas DOD benefit recipients residing in seven foreign countries and two U.S. Commonwealth Territories. The Secret Service believes that this new operational concept in annuitant verification has been a proven success.

Question: Can you please give the Committee an update on this issue? Has any more coordination taken place amongst the Bureaus, and if so, could you please describe the implementation of any such plan?

Answer: These on-site verifications are currently being conducted by teams of DOD and Secret Service personnel, who are interviewing, photographing and fingerprinting annuitants at each of the different locations. At some of the foreign venues, the Service plans to use an advanced biometric system called AFIS (Automated Fingerprint Identification System) to obtain positive identification of the annuitants interviewed. This program has also provided the annuitants with an opportunity to receive annuitant services and payment problem resolution.

Question: What other foreign locations have you targeted to implement the program?

Answer:

TRIP Operation Mongoose Completed					
Site	Timeframe	Recipients Verified	Recipients Reverified	Recipients Suspended	Savings
Guam	July - August 1995 September 1995	1,600	1,600	63	$800,000
Puerto Rico	October - November 1995 January 1996	6,580	1,100	302	$3,100,000
Spain - Italy	January - February 1996	1,263			
Future					
Spain - Italy	May 1996		X		
Germany	April - May 1996	X			
Japan - Korea	July 1996	X			
United Kingdom	September 1996	X			

Other Entitlement Fraud (Food Stamp Fraud And EBT)

Last year, Director Bowron testified that the Secret Service would seek increased cooperation with the Department of Agriculture to work on the problem of food stamp fraud. One area that was addressed during the Committee hearing was use of an Electronic Benefits Transfer (EBT) card that could be used instead of food coupons.

Question: Did the Secret Service look at the State of Maryland and its EBT system?

Answer: Yes. The Secret Service has analyzed existing pilot Electronic Benefits Transfer (EBT) programs including the Maryland statewide EBT program, and seen mixed results. At this writing, only the counterfeit deterrents and law enforcement suggestions have been endorsed by the EBT Task Force which was created to design and implement the new nationwide EBT program. None of the Service's suggestions have been endorsed by the EBT Council, which represents most state EBT systems.

Question: Has any progress taken place in this area? Are we any closer to developing a national EBT system that would help eliminate so much fraud and abuse in the food stamp system?

Answer: The Vice President's National Performance Review has designated the Electronic Benefits Transfer (EBT) card as the method of payment for the delivery of recurring government cash benefit payments to individuals with no bank

accounts, and for the delivery of non-cash benefits such as Food Stamps. The Federal EBT Task Force is attempting to design a system that will piggyback on the existing commercial credit/debit card infrastructure.

The Southern Alliance of States (SAS), an eight state coalition, has awarded a contract to Citibank to develop what will become the prototype for national implementation. To date, over 40 states are in various stages of implementing EBT, including planning, negotiating contracts, or operating new systems. The EBT Task Force believes EBT will be operational nationwide by 1999.

The new EBT system offers a much better method of detecting benefits fraud than the existing paper Food Stamp Coupon Program. However, as with any recurring payment system, EBT is open to a wide variety of other fraud, including multiple false applications for benefits and counterfeiting of the EBT card. In an attempt to combat these potential attacks, and design a secure payment system, the Secret Service has worked closely with the President's Council on Integrity and Efficiency (PCIE). This council includes as members the Department of Agriculture Inspector General and other program agency inspectors general.

The Secret Service and PCIE have made the following suggestions to the EBT Task Force for deterring potential EBT fraud:

- Biometric identifiers should be used to verify applicants' identities and prevent application fraud;

- Counterfeit deterrents such as four color graphics printing, fine line printing, holograms and embossing should be included in the design of the card; and,

- Features should be included in the EBT system that allow investigators to monitor transactions and utilize the audit trail to identify criminals illegally trafficking in food benefits.

Base Shortfall

Question: What is the Secret Service's realistic base shortfall?

Answer: An estimate as to the shortfall relative to full funding for the Service's authorized staffing is difficult to make at this time. The Service received most of what was required to eliminate the base shortfall, as it then existed, in FY 1996. The funding needed to cover the increased costs of employee within grade and promotion costs that are not offset through employee turnover savings, have not been funded for FY 1996 and FY 1997. Further, the FY 1997 Budget Request contains a net $2.3 million reduction to the base budget.

Exacerbating this situation is the higher than budgeted costs for overtime that the Service is currently experiencing with the closing of Pennsylvania Avenue in front

of the White House. This additional overtime expense can be expected to abate as the staffing required to implement the recommendations of the *White House Security Review*, as requested in the FY 1997 budget, is obtained.

Financial Crimes And Gangs

There have been numerous reports as to the explosive growth of financial crimes perpetrated by gangs. Specific references have been made to the rise in criminal activity by Russian, Asian, and Nigerian organizations.

Question: How would you characterize the extent of this "gang" problem and the rise in financial crimes in general?

Answer: Russian, Asian and Nigerian organized criminal enterprises are increasing their efforts to perpetrate a myriad of financial crimes. These efforts, through assaults on financial systems, continue to provide huge illegal profits.

Question: To what degree are these financial crimes tied to other criminal activities?

Answer: Proceeds from this activity are utilized to further additional criminal activities such as drug trafficking.

Credit Card Fraud

Last year, the Secret Service spent approximately $22 million relating to credit card fraud.

Question: Should Congress institute a fee for investigations that aid credit card companies to cover the costs to the Service to conduct these investigations?

Answer: This could be detrimental to the investigative mission of the Secret Service. The Service, by law, is required to investigate credit card fraud. This cannot be perceived as the Service acting on behalf of credit card companies in return for payment.

The credit card companies provide invaluable information, materials, and other resources necessary for a successful prosecution. The imposition of a user fee for the credit card companies would create a negative public image of the Service and the Service would be vulnerable to the allegations that it only will work those cases that are deemed financially lucrative for the Service or the government.

West African Task Force

The Secret Service has long been active in combating certain financial crimes through the West African Task Force which was strongly supported by this Committee.

Question: How would you characterize the growth and nature of the financial crimes committed by these groups?

Answer: While Russian organized crime is still emerging, and Asian criminal enterprises are substantial in their impact, since the 1980's Nigerian criminal cells continue to be the most prolific group participating in access device fraud. The most productive means available to combat these entities continues to be the Secret Service's task force approach, which results in a focused joint investigative effort. All three criminal groups participate in virtually every form of financial crime, including: telecommunications fraud, bank fraud, insurance fraud, access device fraud, and advance fee fraud.

The Secret Service has seen a dramatic increase in a variety of criminal groups systematically attacking financial institutions in the United States. These groups are not the traditional organized criminal groups such as the La Cosa Nostra, but are loosely controlled groups. The Secret Service has seen these organized criminal groups either launder the proceeds from financial crimes or use the proceeds to further other criminal enterprises, such as the illegal drug trade, gun running, car thefts, and a variety of other crimes.

Question: Is this problem a growing criminal concern in the U.S.?

Answer: The financial community has identified credit card and check fraud as the two greatest problems causing losses to their institutions. Fraud relating to these activities costs the United States banking industry billions of dollars a year. Secret Service investigations show these emerging groups are a significant part of this problem.

The Secret Service has seen that of all the criminal groups investigated, Nigerian organized crime is one of the leading groups in violations committed against Service jurisdictions. Criminal acts aimed at both the financial community as well as the general public have continued to escalate. The Service has a long history of investigating Nigerian criminal enterprises dating back to the 1980's. The Service established the country's first West African Task Force. There are now ten of these task forces.

Question: What additional steps can the Service take to counter this problem?

Answer: The Service maintains its present and effective approach, utilizing multi-agency task forces. Additionally, information sharing and coordination among the numerous law enforcement agencies, training with overseas criminal justice systems, and the education of the general public play and important role in attacking organized criminal enterprises.

Question: How many FTEs are you devoting to West African Fraud?

Answer: The Secret Service currently has approximately 100 FTEs devoted to fighting West African fraud.

Question: Ideally, how many would you need to sufficiently deal with this problem?

Answer: Ideally, 100 additional agents are needed to sufficiently deal with this problem.

Forensics Assistance For Crimes Against Children

Last year, Congress appropriated $1.6 million to enhance the Secret Service forensics capabilities. These technological enhancements would then enable the Secret Service to assist state and local law enforcement authorities in their investigations of crimes against children.

Question: Have any of these forensic technologies for missing children that Congress appropriated funds for last year been applied by the Secret Service to missing children cases, and if so, can you provide specific examples of any success cases?

Answer: Yes. These funds have been utilized to purchase equipment that will enhance Secret Service capabilities in the areas of polygraph; the Forensic Information System of Handwriting (FISH) system; the Automated Fingerprint Identification System (AFIS); video/audio enhancement, ink/toner identification; and chemical analysis. This technology, which is designed for the investigation of core Secret Service financial investigations and protective activity, has been applied to cases involving missing and exploited children.

Since 1994 the Secret Service has been routinely sharing forensic technology with state and local police through the National Center for Missing and Exploited Children (NCMEC). During that time twenty-seven polygraph examinations have resulted in the identification of a probable perpetrator in one missing child case; fifteen suspects have been arrested in child exploitation cases; and five persons have been cleared of child exploitation.

Also, there has been one age progression case; one audio tape enhancement in a child sexual abuse case; and most significantly, the location of a known child abductor, and two kidnapped children through the use of Secret Service cellular phone tracking technology.

Today, Secret Service FISH technology is operational with a pedophile database of over 200 records. The Service has also produced brochures concerning missing and exploited children for dissemination to state and local law enforcement organizations; prepared presentations covering the missing and exploited children program for use by Secret Service field offices; published an article on the Missing and Exploited Children program; and made several presentations to state and local law enforcement agencies, and Interpol, regarding forensic services available in such cases.

The Secret Service has also established a direct, on-line service to communicate more effectively with state and local authorities through the 49 National

Center for Mission and Exploited Children (NCMEC) clearinghouses; assigned two forensic representatives to the Department of Justice Federal Task Force for Missing and Exploited Children; and assigned two criminal investigators to the Morgan P. Hardiman Task Force for Missing and Exploited Children.

Protection Of Former Presidents

Question: How much money will be spent in FY 1997 on the Protection of former Presidents?

Answer: The Service estimates that in FY 1997, $20.8 million will be spent on the protection of former Presidents.

Question: How much contribution money has been received by the U.S. Government from those protectees?

Answer: In May, 1992, Mrs. Johnson forwarded a check for $450 to the Treasury Department as a reimbursement for rooms and meals for agents. Also, on two occasions in the past, Mrs. Johnson partially paid for car rentals during foreign trips. On one occasion she paid $500 and on another she paid $1,000. To date these are the only contributions the Service has received.

Federal Law Enforcement Wireless Users Group (FLEWUG)

The Departments of Treasury and Justice will serve as co-chairs to the Federal Law Enforcement Wireless Users Group (FLEWUG), the organization established to develop a National Law Enforcement Public Safety "Wireless" Network (PSWN). Each provides funding and FTEs to resolve problems of national communications interoperability and tactical radio coverage among law enforcement and public safety agencies.

Question: Would you please provide a more thorough description of what the Federal Law Enforcement Wireless Users Group (FLEWUG) will do to federal law enforcement?

Answer: This is the first time that the federal law enforcement community has come together to resolve long standing problems of communications interoperability and tactical radio coverage, issues that plague the cooperative efforts of law enforcement and public safety at all levels of government. The purpose of the FLEWUG is to share information concerning wireless issues among federal law enforcement agencies and to coordinate the development of a future shared vision of an interoperable wireless telecommunications system that could be made available to agencies at the federal, state and local levels.

This vision will be developed through a series of case studies of actual radio coverage designs and limitations that exist in selected geographic areas, and pilot installations of candidate designs and technologies that fulfill a wider range of user-defined needs. FLEWUG planning is focused on the long term - 5 to 10 years. The final product of the FLEWUG effort will be a design and implementation plan for a

new approach to tactical land/mobile radio needs; it will not be responsible for putting this new network in place. Actual physical implementation of the network will remain the responsibility of the using agencies with whatever budgetary resources are at their disposal. The potential benefits of this initiative are:

- Improved coordination between federal, state, and local law enforcement/public safety agencies;
- Reduction of costly duplication of effort;
- Enhanced interoperability;
- Improved information flow to the mobile agent or officer;
- Improved tactical coordination and operations;
- Improved spectrum efficiency;
- Improved agent/officer safety.

Question: What role will the Secret Service, and the Department of the Treasury have in this group?

Answer: The Federal Law Enforcement Wireless Users Group (FLEWUG) is a joint agency initiative established by a Memorandum of Understanding (MOU) between the Treasury and Justice Departments. The MOU was entered into pursuant to a recommendation in the National Performance Review. The Secret Service is the Department of the Treasury's Executive Agent for wireless programs, and serves as the Treasury Co-Chair of the FLEWUG, along with the Federal Bureau of Investigations at the Justice Department.

Question: Why are no other Treasury law enforcement bureaus seeking funding or FTE's for this initiative?

Answer: Previous attempts to fund this effort through each bureau's budget failed because the initiative was often confused with, and perceived to be in competition with, existing individual bureau wireless efforts which must continue, for now, in parallel with the FLEWUG effort. More importantly, the individual bureau funding approach attempted previously by the Treasury Department was not consistent with the Department of Justice approach toward funding their half of the initiative. Justice chose to have the FBI request all funding and FTE's for this initiative. The Treasury Department and the Office of Management and Budget agreed to emulate the Justice approach as the most effective and least confusing. Thus, with the FY 1997 budget request, the Secret Service began requesting the funding and FTE's needed to support this initiative on behalf of all Treasury bureaus.

Reduction In Overtime And Permanent Change Of Station (PCS) Moves

The Secret Service is projecting a savings in overtime and Permanent-Change-of-Station (PCS) moves totaling $4.0 million.

Question: Since the Secret Service is requesting other increases to maintain current levels, is this $4.0 million really a savings?

Answer: The $4.0 million represents an estimated savings in these specific expense areas.

Question: Why does the Secret Service foresee a savings in overtime and PCS moves?

Answer: In formulating the FY 1997 Budget Request the Service was required to find savings in its base operations. It remains to be seen whether or not these savings can actually be realized. With the restoration of some base funding that was needed to increase staffing, it is hoped that savings in overtime costs can be obtained.

Question: Will less be paid in overtime during a campaign year?

Answer: The estimated reduction in overtime costs in FY 1997 is not related to the candidate/nominee protective activity. Overtime costs are significantly higher during a campaign, and the Service has budgeted separately to meet this requirement.

Question: Will fewer PCS moves take place during a campaign year?

Answer: It is possible that PCS moves will be fewer in number during a campaign year. However, this campaign year they will be higher; due mainly to higher than normal employee turnover, and the additional personnel transfers required to implement recommendations made by the *White House Security Review*.

Representation Funding

Last year, the Committee authorized a ceiling of up to $12,000 to be expended by the Secret Service for representation funding.

Question: Can you please provide the Committee with a detailed accounting of how this money was spent during the past fiscal year?

Answer: The following is an accounting for the expenditure of official reception and representation funds last fiscal year:

Meetings on White House Security	$ 1,063
Holiday reception	6,160
International Chiefs of Police Convention	1,075
Foreign Law Enforcement training/liaison	1,012
Liaison with Congressional and government officials	864
Meetings with industry	407
Conference and briefing on Missing & Exploited Children	276
Annual awards reception	134
Miscellaneous	777
	$11,768

United States Customs Service

Overview of 97 Budget

Question: Commissioner Weise, I am pleased to see that your budget for FY 1997 addresses the continuing problem of drug enforcement on the Southwest border. This is still, as I understand it, the number one transit point for cocaine entering the United States. What I am concerned about, however, is that while the $108 million increase may be needed and justified, and something this Subcommittee would like to support, I am not sure that we will have the money in our 602(b) to fund the entire increase. For this reason, I would ask you to give serious consideration to a prioritization of the proposed initiatives. It may well be that the $65 million for 657 new inspectors and agents and enforcement equipment on the border is the highest priority for you. That we need to know. Have you prioritized your initiatives, and if so, can you tell us what they are?

Answer: Customs considers all of its initiatives to be a high priority. However, the sheer size of the Southwest (SW) Border Initiative ($65 million), and its implications for addressing some serious problems along the Southwestern Border (i.e., violence due to port running, narcotics smuggling) make the SW Border Initiative a high priority request in FY 1997.

The Southwest Border Initiative builds on anti-smuggling and anti-port running successes observed since Operation Hard Line was implemented in FY 1995. Initially, these efforts have used intensified inspection processes and technology, and fortified U.S. border facilities, to help secure Southwestern border ports of entry and reduce the amount of narcotics entering the U.S. at these facilities. As a result of these efforts, port running incidents have decreased by over 40 percent and narcotics seizures have increased by 22 percent at Southwestern border ports of entry since Operation Hard Line was implemented a little more than a year ago. Larger percentage increases have occurred in pounds of narcotics seized.

Customs will use the $65 million requested for its SW Border Initiative to continue some of the same strategies and applications to improve upon Operation Hard Line successes. Customs will continue to invest in non-intrusive inspection technology such as cargo x-rays. Currently, Customs has only one operational cargo x-ray along the Southwest Border. Customs plans to invest in four more cargo x-rays with funding from the SW Border Initiative.

Customs will also hire an additional 657 Customs inspectors, special agents, canine enforcement officers, and investigative support personnel. These personnel are needed to conduct more frequent pre-primary roving, truck primary, and secondary inspections, and increase the number of investigations that Customs can perform. These additional cases will be generated by the greater number of inspections performed. Because of high workload volume relative to staffing, Customs has had to use pre-primary roving and secondary inspections more selectively. Pre-primary roving, in particular, is a valuable tool that by its unpredictable nature, puts the would be smuggler on the defensive and allows Customs to be more proactive. The additional funding is also needed to alleviate the heavy use of overtime that has the

potential to physically and mentally drain our law enforcement personnel along the Southwestern border.

Question: Having said that, I am concerned that initiatives are being funded at the expense of your base activities which means that if we fund the initiatives, many of your ongoing activities, including narcotics enforcement will suffer. The erosion in your base budget and reductions that appear to be arbitrary may harm your ability to carry-out your diverse missions. I am particularly concerned due to the administrative reductions you have taken over the years in addition to the proposed reduction of $13.695 million in administrative and program cuts across-the-board in various object classes. At the same time, increases are being proposed to cover base shortfalls in vehicles, equipment, and agent relocations. This is inconsistent. Why have a $13.7 million cut and then ask for increases to restore some of those same activities?

Answer: The administrative reductions taken by Customs over a 4-year period, FY 1994-FY 1997, are the agency's share in the Government-wide reductions associated with Executive Order 12837. These reductions were implemented to assist in the control of the Federal deficit and to improve the administrative productivity of the Federal Government. Reductions assessed to Customs for FY 1997 under Executive Order 12837 were $13.695 million for Salaries and Expenses and $6.922 million for Operations and Maintenance.

The Salaries and Expense assessment is lower than originally prescribed pursuant to E.O. 12837; it takes into account the $2.677 million reduction in administrative overhead assigned in the FY 1996 Conference action as a pre-payment against FY 1997.

The FY 1997 President's budget request, which includes $4,805,000 for replacement vehicles ($2,000,000 of which is proposed for funding from the Violent Crime Reduction Trust Fund), $2,400,000 for protective vests and surveillance equipment, and $2,000,000 for agent relocation, in effect, adjusts Customs share of "administrative reductions" by adding back funding for these identified deficiencies.

Southwest Border/Operation Hardline

- In fiscal year 1996, the Congress provided total funding of $38,990,000 to the Customs Service for Operation Hard Line, the Southwest border anti-narcotics initiative. $25,690,000 was included in the Violent Crime Trust Fund, and the remaining $13,330,000 was included in the salaries and expenses account. The Service had anticipated using this increased funding for numerous activities such as infrastructure improvements at ports of entry, the purchase of additional cargo scanning equipment, etc.

- In fiscal year 1997, the President is requesting an additional $40,795,000 and 657 FTEs for Operation Hard Line activities in the salaries and expenses account, and an additional $25,283,000 in the Violent Crime Trust Fund account. The salaries and expenses funding will be used for hiring an additional 561 inspection personnel for Southwest border ports of entry and an additional

101 enforcement personnel. The Violent Crime funds will be used for Southwest border technology enhancements and infrastructure improvements.

Question: First, can you tell the Committee specifically, how are you spending the FY 1996 Hard Line money, by activity, and second, can you explain how you intend to expend the FY 1997 funding requested for this initiative on the Southwest border?

Answer: The Salaries and Expenses appropriation of $13.3 million provides resources for the relocation of an additional 72 special agents and intelligence analysts (cumulative total of 162); vehicles and computer support; a fourth and fifth truck x-ray system; special operations funding, the initial installation of license plate readers, integrity awareness training and technical surveillance units, and an interim increase in the tempo of operations all across the border.

The Crime Bill funding provided resources for the following, as originally estimated:

1 Truck X-Ray System (#4 BOTA)	$3,000,000
1 Truck X-Ray System (#5 Pharr)	3,000,000
Intelligence	400,000
Intelligence Port Specific/Data Project	750,000
Relocation of 72 Agents/Analysts	5,085,000
Special Operations	1,500,000
Problem Solving Initiatives	1,000,000
Vehicles	1,243,000
Integrity Awareness Training	100,000
License Plate Readers	2,700,000
Computer Support for SW Border Investigations	912,000
Increased operational tempo for Hard Line II	6,000,000
TOTAL	**$25,690,000**

The President's FY 1997 Budget request for continued support of Operation Hard Line totals $65.0 million and 657 positions. The S&E appropriation of $40.8 million together with the $24.2 million in the Crime Bill request will provide for 657 positions, additional truck x-ray systems, portable TECS terminals, additional seizure vaults, and recurring maintenance costs for equipment. Staffing will cover pre-primary roving, vacant primary booths, secondary inspections, truck primaries and exit

gates, cargo docks (to fill bays and search cargo), address overtime, staff new ports, and provide special agents and support personnel. The breakdown follows:

Personnel	
211 Inspectors (Cargo)	
188 Inspectors (Passenger)	
157 Canine Officers	
69 Special Agents	
32 Support Personnel	
Subtotal Personnel (657 Positions)	**$50,505,000**
Equipment	
Additional Truck X-Ray Systems	$12,000,000
Portable TECS Terminals	1,390,000
Hardening of the Vaults	1,105,000
Subtotal Equipment	**$14,495,000**
FY 1997 Appropriation Requested	**$65,000,000**

Of the $24.2 million requested from the Violent Crime Reduction Trust Fund (VCRTF), $10.0 million is integral to funding of the 657 FTE, and will pay for nearly all the one-time basic support costs such as: investigative and protective equipment, weapons, basic training, and information and telecommunications systems necessary for the proper performance of duties.

Question: How much of the '96 funds have been obligated to date? Do you plan to expend the remainder this fiscal year?

Answer: As noted previously, $25.690 million was appropriated out of the Violent Crime Reduction Trust Fund in FY 1996. Generally speaking, we expect to have expended most of the FY 1996 funds by the end of the fiscal year. The following obligations have already occurred:

1 Truck X-Ray System (#4 BOTA)	$3,000,000
1 Truck X-Ray System (#5 Pharr)	3,000,000
Intelligence	400,000
Relocation of 72 Agents/Analysts	5,085,000
Special Operations	1,000,000
Vehicles	1,243,000
Integrity Awareness Training	100,000
TOTAL	**$13,828,000**

The following expenditures are occurring on an ongoing basis, and should conclude by the end of FY 1996:

Increased operational tempo for Hard Line II	6,500,000
Problem Solving Initiatives	1,000,000
TOTAL	**$7,500,000**

The $2.7 million for license plate readers has been committed for upcoming obligation.

Question: As a result of the initiative to date, have the number of incidents of port running declined, if so, by how much?

Answer: Yes. Operation Hard Line has made a substantial impact on the occurrence of port running. Comparing 1995 to 1996 to date, Operation Hard Line has produced a 32.8 percent reduction in port-running on the Southwest Border.

Question: Have you experienced increased seizures of narcotics, particularly marijuana and cocaine?

Answer: Drug seizures on the Southwest border during FY 1995, under Operation Hard Line, have increased markedly. The amount of cocaine, heroin, and marijuana seized have increased 19 percent, 108 percent, and 25 percent, respectively compared to FY 1994.

When Operation Hard Line was initiated, Customs anticipated that there would be a diversion of smuggling efforts away from passenger vehicle lanes toward commercial cargo, as well as deeper concealment within the cargo and conveyances. This has proven true. Narcotics seizures in commercial cargo along the Southwest border have continued to increase from FY 1994 to the present. In comparing the first six months of FY 96 to FY 95, cocaine seizures in cargo increased from 26 pounds to 2,096 pounds; marijuana seizures increased from 4,741 pounds to 18,532 pounds.

Question: Have you procured additional cargo scanning equipment to search trucks and other containers entering the United States? If so, where have you placed the cargo scanners and how many will be purchased in '97 with budgeted funds?

Answer: Our plan for the Southwest Border includes a total of 12 truck X-ray systems for key commercial cargo facilities. The first of these systems is the DoD-funded prototype which is in operation at Otay Mesa, California. We have contracted for 3 more systems with FY 1995 and FY 1996 funds; these will be placed at Calexico, California, and at the Ysleta and Bridge of the Americas facilities at El Paso, Texas. We have funds in the FY 1997 Hard Line Budget for as many as 4 more systems that would be placed at Brownsville, Hidalgo, Nogales and Laredo.

Question: How many additional do you believe Customs requires and at what cost?

Answer: There are additional less-expensive examination systems under development that could be very effective for truck, car, and rail traffic on the Southwest Border. These include a system specifically designed to rapidly inspect closed tank trucks for concealed drugs without requiring the hazardous, time-

consuming, and expensive process normally required to open these tankers. A mobile vehicle X-ray system just developed for us by DoD should be very useful for cars and small trucks. Both of these systems may also be useful for examining railroad cars.

Question: What will be the impact if the '97 request for this technology is not provided?

Answer: Without the technology requested, Customs inspectors will be forced to return to the slower, labor intensive, and physically invasive methods used in the past to detect the illegal importation of contraband into the U.S. Not only does this place a greater workload on the inspectors, it also may lead to increased infiltration of contraband as smugglers resort to ever more clever ways of concealing contraband that are undetectable without this technology. Manual inspections also increase the time required for inspections thereby slowing the flow of legitimate trade into the U.S. Lastly, invasive manual inspections sometimes involving cutting and drilling into merchandise may expose the government to increased tort claims with a potential for increased costs.

Another ancillary benefit of the technology is that it allows the inspectors to become familiar with the internal construction of various containers each time an x-ray is performed. This "baseline" effect will enable the inspectors to readily detect containers that appear to be of non-standard construction.

Question: How many inspectors and canine enforcement officers does Customs currently have on board, can you break this out by those funded through direct appropriations and those funded by COBRA user fees?

Answer: We currently have 7,110 inspectors and 458 canine enforcement officers on board. Of the 7,568 total positions, 1,141 are funded through COBRA, 30 through the Small Airports account and 6,397 through direct appropriations and reimbursement.

Question: Where do you intend to place the new inspectors by port?

Answer: In the FY 1997 budget, Customs requested 657 FTE of which 399 are inspectors and 157 are canine enforcement officers. Customs had begun the initial planning for locating the 657 FTE along the Southwest border. In OMB's passback guidance, however, OMB requested that Customs work with INS to allocate positions along the Southwest Border. As a result and in the interests of both agencies, the Deputy Commissioner of Customs recently sent a letter to the Deputy Commissioner of INS requesting a meeting of the two agencies to discuss plans for allocating inspector resources for Fiscal Year 1997. INS will be allocating 400 inspectors to Southern border ports in FY 1997. This meeting is expected to take place sometime in the next few months. The outcome of the meeting will affect the distribution of all of Customs 657 FTE.

As soon as the joint planning is completed, we will provide to you the location of the 657 FTE for the Southwest border.

Line Release Program

- There has been much criticism of Customs' Line Release program in the media during the past 6 months. Some in Congress contend that this program benefits the trade community at the expense of enforcement.

Question: Can you explain in detail the Line Release Program, when it came into being and why Customs is continuing this program?

Answer: The Line Release Program, which was implemented on the Northern Border in 1986 and the Southwest Border in 1987, is one of several cargo systems implemented along both the Southern and Northern land borders to assist inspectors in processing cargo. Border inspectors have the difficult task of sorting through the millions of commercial conveyances arriving each year and determining which ones to examine.

The Line Release Program was developed by U.S. Customs to facilitate high volume, low risk, repetitive shipments. In order to participate in the Line Release program, an importer/shipper must submit an application; Customs, along with the Department of Agriculture and the Food and Drug Administration, perform 43 checks and queries using our enforcement and commercial databases.

The key to Line Release is a C-4 bar code which contains the information necessary to uniquely identify a routine import transaction. The C-4 bar code identifies the shipper, the importer of record, the entry filer code, and commodity code. To release the merchandise, U.S. Customs reads the bar code into a personal computer, verifies that the bar code matches the invoice data, and enters the quantity. The Customs inspectors have the ultimate control of the release of cargo processed through Line Release; built into the program is a specific enforcement capability that gives inspectors the discretion to override the computer "Release" decision. Inspectors may override a Line Release shipment at any time to conduct enforcement inspections.

Question: What do you believe would be the impact to be if the Line Release program were to be terminated?

Answer: The Line Release program allows Customs to clear the cargo upon arrival at the primary processing booth. These Line Release transactions generally take 1 to 2 minutes to perform and if everything is in order, the truck is allowed to proceed into the U.S. without further interruption. Without Line Release, the merchandise would have to be cleared using other cargo release mechanisms. This process entails that the truck be sent to the import lot to park. The truck driver would have to submit the commercial invoices to a licensed customhouse broker for preparation of the required entry documents and also prepare the data for electronic submission to the Automated Broker Interface (ABI). This cargo entry preparation process can take

anywhere from 30 minutes to several hours depending upon the commodities involved and available staff resources at the broker's office. Once the entry is submitted to Customs, a determination is made regarding the merchandise's admissibility, and it is either examined or released at that point. The entry preparation under some circumstances can be accomplished prior to the truck's arrival in the U.S. border, but it is not typically the case.

In FY 1995, Line Releases along the Southern and Northern borders totaled 345,778 and 3,038,558, respectively with a total 3,384,336. As you can see if these transactions were removed from Line Release there would be considerable impact to the time and resources involved in clearing arriving cargo from both Mexico and Canada.

Question: What specific steps have you taken to oversee or improve the program to ensure that criminal activities are not carried out by certain trucking companies or their employees?

Answer: The Land Border Carrier Initiative program (LBCIP) was developed in the Spring of 1995 to address the threat of drug smuggling along the southwest border, and to enlist the support of the land border carriers in the war on drugs.

The purpose of the LBCIP is to deter smugglers of illegal drugs from using land border commercial conveyances to transport their contraband, to provide carriers with incentives to improve their own cargo terminal and conveyance security as well as to enhance their awareness of drug smuggling, and to encourage carriers to recognize and report suspected illegal activities to U.S. Customs.

The program has been established at the major ports along the Southwest border. Each of these ports has dedicated resources and a point of contact (P.C.) to the program. Each P.C. has received training materials to brief local carriers and the trade.

Approximately 500 land border carriers have signed Carrier Initiative agreements with Customs. As a follow-up to the agreements, training of the carriers and site surveys of the carriers's facilities are being conducted at the local level.

In addition, to ensure the integrity of the program, the Line Release database was made available nationwide in November 1995, and is currently being tested and evaluated. This change will give us numerous new capabilities. Once the testing is completed, the following will be available in late 1996:

- Customs will have the ability to have ALL Line Release information available to ALL ports.

- Customs will have audit trail capabilities for transactions and recordation of database changes resident in the mainframe. This change will ensure that ANY user who changes, adds, or deletes information is identified in the system.

- Customs is in the process of standardizing the application approval and recertification processes. We will automate the application process and the mainframe will conduct all relevant database queries. All Line Release-associated entry summaries will be compared with the Line Release database to ensure that the transaction is in good order.

- All Line Release participants will be automatically queried in the enforcement databases on a periodic basis.

Question: On average how many trucks enter large ports of entry on the border, like Otay Mesa, San Ysidro, Nogales, El Paso, etc.?

Answer: The information follows in the table below.

U.S. Customs Service
Number of Trucks
Southern Border
FY 95

	Annual Total	Average per Month
South Texas CMC		
Port of Laredo, TX	733,783	61,149
Port of Del Rio, TX	36,601	3,050
Port of Eagle Pass, TX	54,779	4,565
Port of Roma, TX	11,426	952
Port of Rio Grande City, TX	14,936	1,245
Port of Hidalgo, TX	174,049	14,504
Port of Progresso, TX	22,962	1,914
Port of Brownsville, TX	233,615	19,468
Totals	**1,282,151**	**106,846**
West Texas CMC		
Port of El Paso, TX	610,177	50,848
Port of Presidio, TX	5,291	441
Port of Fabens, TX	269	22
Port of Columbus, NM	2,087	174
Totals	**617,824**	**51,485**
Arizona -CMC		
Nogales, AZ (Area)	204,478	17,040
Douglas, AZ (Area)	44,031	3,669
San Luis, AZ (Area)	46,879	3,907
Totals	**295,388**	**24,616**
Southern CA - CMC		
Port of Andrade, CA	3,818	318
Port of Tecate, CA	41,064	3,422
Port of Calexico, CA	176,420	14,702
Otay Mesa, CA	477,390	39,783
Totals	**698,692**	**58,224**
Southern Border Totals	**2,894,055**	**241,171**

Arithmetic totals may not appear to add due to rounding.

Question: How many of these trucks, on average, are subjected to intensive inspections?

Answer:

Trucks	FY 1995
Percentage of Inspection	27.20%

Question: Overall, what percentage of cargo entering the U.S. is subject to intensive inspections? How does this compare to previous years?

Answer: For those importers in the Line Release Program, the following percentages apply:

Line Release Cargo	FY 1995	FY 1994	FY 1993
Intensive exam rate	1.9%	1.8%	4.5%

For all cargo, the relevant percentages are :

All Cargo	FY 1995	FY 1994	FY 1993
Intensive exam rate	3.1%	3.7%	6.0%

Question: Is there anything an Inspector can do to override a line release shipment if he/she has reason to believe the vehicle contains suspect goods?

Answer: Inspectors can order an examination on any Line Release shipment if there are any indications present such as driver behavior, irregularity in shipping documents, or discrepancies noted on the commercial conveyance. The inspectors have full discretion in whether an enforcement examination is warranted.

Besides examinations ordered by inspectors, the Line Release Program has built into the system random referral factors at both the national and local level. These are also used to validate the applicant's inclusion in the program.

Question: What priority does Customs place its enforcement missions vs. its trade missions?

Answer: Both our trade and enforcement missions are equally important to Customs and they do overlap. To the degree that our enforcement systems work, we can select the potential violator for intensive inspection while expediting those who willingly comply with the law. Customs believes that these actions benefit both enforcement and trade-related activities.

Question: What percent of the time is spent on enforcement vs. trade?

Answer: Customs spends roughly 65 percent of its directly appropriated resources performing commercial-related activities. The other 35 percent is spent on enforcement and other activities. Many functions performed by Customs officials enforce a wide variety of laws.

Department of Defense Transfer

- General McCaffrey received approval from the President to shift $250 million from the Department of Defense program accounts to drug control accounts for enhancing activities as identified by the ONDCP.

- That transfer has been submitted as a supplemental request and must be approved by the Congress

- The transfer proposes to fund the retrofitting of 2 P-3B airframes with Airborne Early Warning (AEW) equipment at a cost of $98 million. If approved, this would bring the total number of P-3 AEW aircraft in support of drug interdiction to 6.

Question: I would assume that Customs strongly supports the acquisition of 2 P-3 AEW aircraft to add to its interdiction fleet. Is that correct?

Answer: Yes. Because of the competing requirements within the DOD for Airborne Early Warning (AEW) platforms, Customs P-3 AEW aircraft are the only airborne detection platforms consistently available for counter-drug operations. This capability, combined with their exceptional detection and monitoring capabilities, places Customs P-3 AEW aircraft in a position where the demand regularly exceeds their availability. The addition of two P-3 AEW aircraft to the Customs fleet will help to close this gap between availability and demand.

Question: If the $98 million in DoD funding is approved, how long will it take to complete the procurement contracts and deliver these aircraft to the Customs Service?

Answer: It will take approximately six months for contract award. One aircraft will be delivered within one year following contract award with the second aircraft delivered a year later.

Question: Will these aircraft be operated by the Customs Service or DOD? Will the Customs Service retain title to these aircraft?

Answer: Based on the language contained in the Fiscal Year 1995 DOD Appropriation Conference Report, Customs will operate, and retain title to, these aircraft. In the Conference Report, the conferees directed the Navy to transfer to Customs two currently retired and previously identified heavyweight P-3B aircraft and

two APS-138 radars, including rotodomes and pedestals as they become available upon the retirement of Navy E-2C aircraft. The Conference Report further stipulated that it shall be the responsibility of Customs to take control of and modify the aircraft by September 30, 1997.

The supplemental request forwarded to the Congress on April 12 also calls for this transfer and provides funding to Customs for the conversion of the two aircraft.

Question: Specifically, where will these aircraft be used?

Answer: Generally, the new Customs P-3 AEWs will be used to ensure an adequate level of support in areas where P-3 AEWs are currently operating. They will also be used to sample potential drug smuggling activity in areas currently not covered by radar. Due to the highly volatile and fluid nature of the air interdiction mission, Customs is unable to give specifics on the geographical assignments of these aircraft other than to say that they will be assigned to the areas of the greatest threat at the time they are placed in service.

Question: The DOD initiative also proposes to transfer $7 million to Customs in support of Operation GATEWAY, a joint Customs-Coast Guard interdiction initiative in Puerto Rico and the U.S. Virgin Islands.

In answers submitted to questions for the record last year, Customs stated that the "Marine Program is anticipating a possible resurgence of smuggling activity in South Florida and the Caribbean .....to verify, Customs is developing special operations...."

Commissioner, based on the special operations undertaken in South Florida and the Caribbean, I assume that the indicators showing the resurgence of smuggling activity are valid. As a result, I understand you are engaged in a new Operation to respond to that threat, Operation GATEWAY. Commissioner, can you provide us with more information about Operation GATEWAY, its purpose, and specific objectives?

Answer: Operation GATEWAY, developed by the Customs Service, is a multi-disciplinary, multi-agency approach to the problem of narcotics smuggling and money-laundering. This initiative encompasses all areas of interdiction, including: expanded marine and air enforcement, heightened cargo examinations, outbound (international and continental U.S.), and expanded small vessel searches. It also calls for use of enhanced technology, additional inspection and investigative support, and the resources necessary for a more effective interdiction strategy.

The goals of operation GATEWAY are to:

- disrupt the methods of operation of narcotics smugglers exposing them to loss of product, increased price and cost of "doing business", loss of operating profits, and dismantling of their organizations;

- permanently strengthen Customs anti-smuggling efforts in the Caribbean area, specifically in Puerto Rico and the U.S. Virgin Islands;

- provide for "one-stop" intelligence gathering and dissemination involving multi-discipline and inter-agency personnel.

Operation GATEWAY calls for the use of the latest technology, additional interdiction/intelligence/ investigative support, and changes the way U.S. Customs performs its operations in the Caribbean area.

The major operational components of Operation GATEWAY focus on:

(1) targeting smuggling via aircraft, vessels, cargo and passengers;
(2) investigations;
(3) intelligence; and
(4) government (Federal/Commonwealth/local), inter-agency and international cooperation.

Question: Is this Operation being partially funded by the Puerto Rican Trust Fund, if so, how much is being provided and for what purposes?

Answer: The Customs Service and the Government of Puerto Rico are committing a total of $7.164 million to initiate Operation GATEWAY for FY 1996. This is being accomplished by Customs reprogramming funds internally along with funding assistance, aside from Trust Fund monies, from the Commonwealth of Puerto Rico to the Customs Service in the amount of $2.45 million. The $2.45 million from the Government of Puerto Rico will be for 15 part-time inspectors, 2 communication specialists, special agents, intelligence analysts, marine enforcement officers, and O&M for 4 vessels to be transferred to Puerto Rico.

Question: How will the funding proposed to be transferred by DoD be used to support this initiative?

Answer: The $7 million funding for Operation GATEWAY proposed to be transferred by DoD would be used for the purchase of 2 light helicopters, additional helicopter and aircraft flight hours and vessel O&M for increased operations. It would also be used to retro-fit C-12 aircraft (if obtained from DoD) with radar and other enforcement equipment.

Question: Can you provide us with your threat assessment on Puerto Rico and the U.S. Virgin islands?

Answer: The Caribbean area, specifically Puerto Rico and the U.S. Virgin Islands, has emerged as a vital strategic location for the introduction and transshipment of narcotics into the United States and Europe. In Puerto Rico, cocaine seizures for the first quarter of Fiscal Year 1996 have increased 29 percent: from 3,317 pounds in

FY 95 to 4,268 pounds in FY 96. The Puerto Rico area, according to Customs intelligence reports, has the highest rate of non-commercial maritime and airdrop smuggling activity of any Customs area. Detected smuggling activity alone occurs at least a couple of times per week. Bales of cocaine and marijuana are frequently found floating or washed up on beaches. Smugglers know that once they are in Puerto Rico, they are in the U.S. and not typically vulnerable to a Customs search upon leaving Puerto Rico. Drug smuggling groups also use various vessel types to transport large loads up through the Lesser Antilles where the drugs are then transshipped by pleasure craft to Puerto Rico.

For the past two years, flights of general aviation aircraft that can transport up to 2,200 pounds of cocaine increased in the area in the Anegada Passage, east of Puerto Rico. The loads are airdropped to waiting go-fast type boats that then take the loads ashore directly to Puerto Rico. Or the smugglers go to nearby foreign islands and keys where they wait for the situation to settle down, law enforcement to return home, and then transport the cocaine to Puerto Rico, landing it at their choice of marinas, beaches, coves, or inlets.

Currently, the price of narcotics in Puerto Rico and the U.S. Virgin Islands are at the lowest in the United States, second only to South American prices, and local usage has skyrocketed. Existing estimates indicate that 90 percent of all crimes committed in Puerto Rico are narcotics related. Investigative efforts have also disclosed that the illegal proceeds funneled through financial institutions in Puerto Rico are both returned to the continental United States to fund cartel distribution cells and laundered through cartel bank havens in the Caribbean area for transfer to the cartels in South America. Further intelligence has been developed through investigations that smugglers have established bases of operations in other Caribbean countries.

Question: The transfer will also provide an additional $6 million to Customs for procurement of large-scale X-ray systems for Southwest border ports of entry.

Are these the same type of scanners which were funded in the FY 1996 DOD bill, if so, what is your position on this type of technology for ports of entry? If not, what specific type of scanning equipment is contemplated? Where will these systems be placed?

Answer: The large scale X-ray systems proposed by ONDCP are the same type of systems funded in the FY96 DoD bill. These truck X-ray systems, which are based on the successful prototype at Otay Mesa, are a keystone of Customs Operation Hard Line for the Southwest Border. They are the best available technology to detect drugs concealed in trucks and other vehicles crossing this border. Customs has already contracted for 3 systems that were identified for the major commercial facilities on the Southwest border. The exact location of the systems to be funded by ONDCP and DoD will depend on when the funds are received and the systems are put under contract.

Air Program

- For FY 1997 Customs is requesting $83.363 million for operations and maintenance of the Customs air and marine programs. This amount is $1.581 less than the FY 1996 level.

- However, in FY 1996, the actual appropriation of $64.843 million was supplemented by $20.101 million in unobligated balances in other accounts which were reprogrammed or transferred into this account.

Question: Can you provide the Committee with a listing of the amount of cocaine, heroin, marijuana and other drugs seized attributable to the air program during fiscal year 1996 thus far?

Answer: For FY 1996 through March (6 months), the Customs Air Program contributed to the following drug seizures:

Cocaine	45,508.5 lbs
Marijuana	26,042.0 lbs
Heroin	150.0 lbs
Other drugs	61.6 lbs.

Question: How does this compare with fiscal year 1995, and 1994?

Answer: During fiscal years 1994 and 1995, the Customs Air Program contributed to the following seizures:

Drug (lbs.)	FY 1994	FY 1995
Cocaine	96,883.0	93,894.6
Marijuana	81,711.0	89,248.5
Heroin	69.0	80.5
Hashish	309.9	14,015.1
Other Drugs	329.2	473.1

Question: What percentage of the time are you devoting to missions in support of source countries and those on the southwest border, the Caribbean, Florida and the Gulf Coast?

Answer: Of Customs total mission hours flown during Fiscal Year 1996 through March, 9% were flown in source countries, 38% were flown on the southwest border, 12% in the Caribbean, 16% in Florida and 13% in the Gulf Coast.

Question: How many missions are being flown by the P-3 AEWs on the southwest border? Will this stay the same, increase or decrease for fiscal year 1997?

Answer: For FY 1996 through March, Customs P-3 AEWs flew 51 missions on the Southwest Border for a total of 335.9 flight hours.

We currently project a similar level of effort for FY 1997; however, this is subject to change depending upon the nature of the smuggling threat and other mission requirements at that time. This flexibility to rapidly adjust the deployment and utilization of resources to meet the current threat is one of the unique attributes of Customs Air Program.

Question: How many missions are being flown by the P-3s in support of SOUTHCOM and Mexico? How many are planned for fiscal year 1997?

Answer: For FY 1996 through March, Customs P-3 AEW and P-3 "Slick" aircraft flew a total of 641.8 hours, conducting 80 missions in South America. In April, however, this rate has increased to an average of 37 missions per month in support of U.S. SOUTHCOM initiatives. During this same time period, the P-3 aircraft flew 471.8 hours, conducting 57 missions in support of Mexican interdiction efforts.

Should SOUTHCOM's current level of demand for Customs P-3 aircraft continue into FY 1997, Customs could fly as many as 400 missions in support of SOUTHCOM in FY 1997. This, however, is contingent upon aircraft availability due to maintenance requirements, the nature of smuggling threat and other mission demands.

Support to Mexico in FY 1997 will likely continue at its current rate provided that the threat warrants and other considerations allow for such a level of support.

Question: Is the Customs Service receiving any reimbursement from the Department of Defense for missions flown by the P-3s in support of SOUTHCOM activities? If so, how much?

Answer: At this time, the Customs Service is receiving no reimbursement from the Department of Defense for SOUTHCOM support by the P-3 aircraft.

Questions: Are any further reductions planned for the air and marine programs in fiscal year 1997? What is the level of staffing for both air and marine, separately, to operate at an optimal interdiction level?

Answer: Air Program: There are no further reductions planned for FY 1997 for the Air Program. The Aviation Program can maintain its current level of support with 854 FTE.

Marine Program: At the beginning of FY 1996 the Marine Program consisted of 75 vessels and had an FY 1996 Operations and Maintenance (O&M) budget of approximately $5 million. This amount of funding is provided for the maintenance and

operating expenses of vessels. The marine program can maintain its current level of support with 69 FTE of marine enforcement officers and 91 FTE of Customs agents assigned as needed.

Question: In your view, is the source-country strategy working, or is this opening new emerging threats in the transit zone?

Answer: Yes, the source-country strategy, especially in the past year, has realized some tremendous success in impacting the flow of drugs along the Peru-Colombia air bridge.

As is always the case, however, we expect that the trafficker will counter this success by establishing new smuggling routes and tactics. For example, as we impact the traffickers' ability to transport coca products from Peru to processing sites in Colombia, we expect the traffickers to establish alternative processing capabilities in other countries. This, in turn, will impact the nature and geographic distribution of the smuggling threat in the Transit Zone as processed cocaine is shipped from countries other than Colombia.

The addition of the two P-3 AEWs to Customs interdiction fleet would enhance the Customs ability to search for and identify these new routes.

Question: With 70% of the cocaine entering this country coming through the Southwest border, how much of the Customs drug enforcement effort is dedicated to law enforcement activities on the Southwest border?

Answer: In FY 1996, Customs drug budget is $551 million and 5,072 FTE of which approximately 2,400 FTE will be utilized on the Southwest Border. While narcotics interdiction is our number one priority, staff on the Southwest Border have trade enforcement as well as drug enforcement responsibilities since the two missions do overlap.

Question: How much of the time is dedicated strictly to the southwest border as it relates to the air program?

Answer: For FY 1996 as of March, Customs air branches along the Southwest Border flew 5,666.4 hours out of a total of 14,868.7 for all of Customs (38%) in support of interdiction, investigative, and other enforcement activities in that region.

Question: Are your operations in support of the Mexican Northern border response teams paying off? Is the Mexican effort declining in any respect?

Answer: Yes. Customs air support to the Mexican Northern border response teams has yielded tremendous results. Since implementation of the cooperative U.S./Government of Mexico (GOM) air interdiction training program in 1990, the GOM's ability to respond to suspect air targets entering their country has increased exponentially. Today, the GOM is able to successfully intercept virtually every aircraft target detected and tracked by U.S. Government assets to their country.

The Mexico effort is not declining, but rather increasing. Currently, Customs Citation II and P-3 aircraft are supporting a joint U.S. Drug Enforcement Administration (DEA)/GOM special operation in Mexico. We are also encouraged by the enhanced level of cooperation between the Mexican and Central American countries to address the drug smuggling threat in their region.

Air Surveillance for Other Law Enforcement Agencies

- The ATF budget has been reduced by $2 million and 5 FTE for support of its aircraft surveillance program. ATF, like other law enforcement agencies, uses its aircraft in support of its violent crime investigations for surveillance purposes.

- This reduction was taken with the understanding that Customs would use its aircraft to provide this service to ATF.

Question: Can you tell the Committee specifically what arrangement you have made with ATF to support its aircraft surveillance needs?

Answer: The USCS and ATF signed a Memorandum of Understanding (MOU) dated November 29, 1995. The MOU establishes a framework for an economic analysis of the USCS providing ATF with aviation support in the conduct of their mission. Project "Noble Venture" is being conducted in which the USCS is providing two pilots and two fixed-wing, single-engine aircraft dedicated for ATF support. One aircraft and pilot's area of responsibility (AOR) is Boise, Idaho. The other's AOR is Chicago, Illinois. The ATF Special Agent in Charge, Air Operations Branch (SAC AOB) will evaluate, coordinate, and direct domestic mission assignments including, but not limited to, surveillance of fixed or mobile targets; mission related transportation; deployments; extractions; communication relay; aerial photography and aerial perimeter security observation. Additional support requests will be coordinated between the two agencies. This project will terminate no later than September 30, 1996.

Question: Can you give us your assurance that you will work closely with ATF's enforcement division to formulate and implement a plan which will fully support ATF's aircraft surveillance requirements at the field level?

Answer: Yes, we will work closely with ATF's enforcement division to formulate and implement a plan which will fully support ATF's aircraft surveillance requirements at the field level. ATF and USCS have worked closely on this effort from the outset. Together, Customs and ATF prepared a Memorandum of Understanding (MOU) and a Statement of Work for project "Noble Venture." Periodic meetings between Customs Air Interdiction Division and the Special Operations Division, Special Agent in Charge (SAC AOB), ATF, are held. A joint working group to examine the effectiveness of "Noble Venture" has been formed. A midterm report will be prepared, as will a final report which will be forwarded to the Assistant Secretary of Treasury for Enforcement for review.

Question: Will this service be provided on a reimbursable basis?

Answer: All costs incurred for the project (e.g., travel, payroll, flight hours, and aircraft support costs) are being tracked. ATF is reimbursing the USCS for travel, per diem, hangar costs incurred in Boise, overtime and holiday expenses. Other expenses that would not normally be incurred to support an authorized USCS mission will be negotiated for each asset requirement separately. ATF's reimbursement total will not exceed $100,000 unless mutually agreed upon by both agencies.

Mexico

- The President's recent International Narcotics Strategy Report on countries cooperating with the U.S. on anti-drug efforts, recommended the certification of Mexico as a cooperative nation.

- The President takes this position despite statements in that report to the effect, "the Mexican drug cartels are growing in wealth, sophistication, and the ability to project operations internationally. Despite improvements in eradication, illicit cultivation of opium poppy and marijuana continue to provide a significant source of raw material for the U.S. drug market. The Mexican financial system facilitates money laundering and GOM (Government of Mexico) officials lack the training and legal framework to effectively curb the diversion of chemicals. .....official corruption remains deeply entrenched and resistant, and comprises the major impediment to a successful counter-narcotics program."

Question: How would you characterize your current relationship with Mexico? Has this relationship improved or worsened in the past year?

Answer: Customs continues to maintain positive working relations with the Customs Administration of Mexico through direct cooperation in bilateral and related working group meetings to address both commercial and enforcement related issues.

There has been improvement in methods and frequency of communications among personnel of both services along the U.S.-Mexico border to support that relationship of cooperation. Mexican representatives of the Secretary of Hacienda and Public Credit, assigned to the Embassy of Mexico in Washington D.C., provide a direct conduit to management levels of that agency and Mexican Customs, further facilitating mutual cooperation.

Question: What type of cooperation are you getting from the Mexican government?

Answer: The Government of Mexico continues to address our concerns over the admissibility of our officers to make periodic official visits to Mexico. With enactment of NAFTA legislation, there has been more direct contact with Mexican government officials on matters of mutual concern over implementation of NAFTA provisions. There is an official from the Mexican Treasury Department (Hacienda) assigned to the NAFTA Center in Dallas Texas, who in coordination with Mexican representatives at their embassy in Washington, is providing a high level of cooperation on all related matters.

Question: What specific support are you providing to the Mexican law enforcement authorities? How many Customs aircraft are being used to provide that support?

Answer: Within Customs, the office of International Affairs currently provides no direct support to Mexican law enforcement agencies, although this office provided narcotics control (interdiction) training and assistance to appropriate Mexican law enforcement agencies. In, FY 1995 Customs provided interdiction training for nearly 60 officers of the Instituto Nacional para el Combate a las Drogas.

At any given time, Customs Air Program has two Citation II aircraft and 11 air officers and pilots deployed in Mexico to provide dedicated support and training to the GOM in the intercept and tracking of suspected drug trafficking aircraft. For FY 1996 through March, this support has cost approximately $320,000.

Customs P-3 aircraft operating in the Transit Zone also provide support to the Mexican interdiction effort by detecting and tracking suspect aircraft en route to Mexico from South America. For FY 1996 through March, the P-3s flew 472 hours in support of this effort at a cost of $1,512,760.

Question: Given the corruption, lack of legal mechanism to deal with money laundering, and serious drug trafficking and cultivation that occurs in Mexico, do you believe Mexico should be certified as a cooperating country? If yes, can you please explain why, what does this get the United States?

Answer: Mexico should be certified as a cooperating country. Although there is serious corruption within Mexico, it is not pervasive. There has been significant

cooperation and this should be recognized. Decertification would effectively nullify these efforts and set back the previous successes.

Columbia

- Colombia has been decertified by the President to receive financial assistance due to lack of cooperation in the war on drugs.

- Major criticism of the current President Samper's ties to the drug cartels in Colombia have threatened the credibility of the Colombian government's dedication to eliminate the cartels.

- In response to questions for the record in fiscal year 1996 with reference to Colombia, Customs stated, "unless and until the above referenced allegations are proven and accepted as truth by the national drug policy makers, ..., the Customs Service is mandated to support this...."

Question: In light of the decertification of Colombia as a cooperating country in anti-drug operations, is the Customs Service continuing to provide any training or other assistance to the Colombian government for drug control purposes?

Answer: The Office of Investigations had tentatively planned to conduct assistance in the form of money laundering training, but, the Department of State directed that all assistance be held in abeyance, due to decertification, until further notice.

Question: How has the support from the government for air interdiction and support operations changed during the past year?

Answer: The Customs Air Program, Office of Investigations, reports the following:

> We are currently experiencing an unprecedented level of support from the Government of Colombia (GOC) in our air interdiction efforts in their country. It was not but a few years ago that it was a rare occasion when the GOC would respond to air targets that we detected and tracked to their country. Today, the GOC makes a concerted effort to respond to most aircraft targets that U.S. government interdiction forces track to their country. Aggressive action against air traffickers on the part of Colombian interdiction forces has also contributed to significantly impacting the drug trafficker's ability to transport raw coca products from the production sites in Peru to processing sites in Colombia.

Question: Do you believe the Customs Service should continue to provide assistance, training and support to the Colombian law enforcement officials? What will be the effect without this support?

Answer: Customs provides training and assistance at the request of the Department of State, Bureau for International Narcotics and Law Enforcement Affairs (INL). As a result of decertification, INL has requested that all assistance be held in abeyance.

Drug Seizure Statistics

Question: For fiscal year 1995, can you provide a complete listing of all illegal narcotics seized by the Customs Service nationwide?

How does this compare to the previous fiscal year?

Can you provide those same statistics for the current fiscal year?

Answer: The information is provided in the table below:

U.S. Customs Service
FY 1994, FY 1995 and FY 1996 FYTD Drug Seizure Statistics

	FY 94 TOTAL	FY 95 TOTAL	Change	FY 95 MidYr	FY96 MidYr	Change
HEROIN NUMBER OF SEIZURES	987	923	-6.5%	434	499	15.0%
QUANTITY SEIZED (LBS)	2,530.1	2,235.3	-11.7%	962.5	1,533.5	59.3%
COCAINE NUMBER OF SEIZURES	2,392	2,226	-6.9%	1,095	1,194	9.0%
QUANTITY SEIZED (LBS)	204,514.0	158,174.0	-22.7%	68,039.8	75,530.4	11.0%
HASHISH NUMBER OF SEIZURES	1,558	1,284	-17.6%	587	613	4.4%
QUANTITY SEIZED (LBS)	1,393.4	16,616.8	1092.5%	906.8	1,695.0	86.9%
MARIJUANA NUMBER OF SEIZURES	9,632	10,218	6.1%	4,773	6,330	32.6%
QUANTITY SEIZED (LBS)	559,583.6	642,264.0	14.8%	322,112.5	417,818.9	29.7%
OPIATES NUMBER OF SEIZURES	1,362	462	-66.1%	236	336	42.4%
QUANTITY SEIZED (LBS)	1,946.7	484.5	-75.1%	220.3	369.1	67.5%
KHAT NUMBER OF SEIZURES	202	367	81.7%	156	289	85.3%
QUANTITY SEIZED (LBS)	12,691.1	27,544.0	117.0%	12,495.4	20,977.1	67.9%
OTHER DRUGS NUMBER OF SEIZURES	3,251	4,896	50.6%	2,091	1,630	-22.0%
QUANTITY SEIZED (Tablets)	24,104,228	5,665,672	-76.5%	3,009,648	15,205,952	405.2%
TOTAL NUMBER OF SEIZURES	36,289	20,376	-43.9%	9,372	10,891	16.2%

Transfer of Aircraft

Language is included in Customs annual appropriation prohibiting the transfer of aircraft outside the Department of the Treasury without the specific advance approval in writing from the Committees on Appropriations.

Question: Can you provide for the Committee a detailed listing of all aircraft either owned or on loan to the U.S. Customs Service for interdiction purposes, can you also identify the origin of the aircraft if they are loaned from another agency?

Answer: The following is a list of the aircraft types, quantities, and the origin of those on loan to Customs.

	QUANTITY		
TYPES OF AIRCRAFT	ACTIVE FLEET	IN STORAGE	REMARKS
Beech 200 (KING AIR)	4		
C12C (KING AIR)	3		Army loan
C404	2	2	
PA31	4	9	
PA42 (CHETS)	5	3	
C550 (CITATION)	26		
P-3A	4		Navy loan
P-3B (AEW)	4		
C206	3	1	
C210	18		
UH60 (BLACK HAWK)	16		Army loan
B206	2		
MD500	3		
BK117	3		
N22S (NOMAD)	4	3	
AS350	7		
TH57	8		Navy loan
TOTAL	116	18	

Question: Can you please detail for the Committee any aircraft which has been transferred out of the Customs Service during fiscal year 1996?

Answer: Customs has not excessed any aircraft in fiscal year 1996 to date.

Question: How many Customs aircraft are currently in storage as a result of previous year's strategy change? Have any been taken from storage to meet new needs in the Caribbean, in Mexico, or on the Southwest Border? If not, why not?

Answer: Customs currently has 18 aircraft in storage at Davis-Monthan Air Force Base in Tucson, Arizona. Those aircraft consist of 9 Piper PA-31's, 3 Piper

Cheyenne IIIA's, 3 Nomads, 2 Cessna 404's, and 1 Cessna 206. One aircraft (a Cessna 206) was taken from storage and assigned to the Caribbean Aviation Branch in Puerto Rico in October 1995.

They are older aircraft which are costly to operate. Moreover, sufficient newer less costly aircraft are in place to counter existing threat levels.

Question: I understand that the DOD has asked Customs to return 13 Black Hawks and reimburse the Army for $6.9 million for repair from damage of these aircraft. Is it true that while DOD is requesting return of these helos, they also plan to transfer these aircraft to the National Guard?

Answer: While it is true that the Army has requested the return of the Black Hawk helicopters and reimbursement in the amount of $6.9 million, Customs does not know about any Army plans to have these aircraft transferred to the National Guard. The Army has indicated to Customs that these aircraft are needed to help alleviate a shortage of 586 Black Hawks.

Question: What would be the impact on the Customs apprehension mission if the DOD Black Hawk aircraft on loan to Customs were returned?

Answer: The UH-60 Black Hawk is the only aircraft in Customs inventory capable of rapidly transporting an adequate number of officers to the scene of a suspected drug off-load. Should these aircraft be returned to the DOD, Customs would be forced to do one of two things:

1) Use smaller helicopters which would reduce the number of officers we could transport to the enforcement location and consequently reduce our effectiveness at the scene and potentially pose an undue safety threat to our officers; or

2) Use fixed-wing aircraft which, because of landing limitations, would restrict the locations at which we could effect an apprehension, again reducing our effectiveness.

Question: Who would provide this apprehension support?

Answer: No other agency has both the legal authority and the appropriate resources deployed in the needed locations to fulfill the air apprehension mission. Posse Comitatus prevents DOD from effecting an apprehension within the U.S. and those agencies with the apprehension authority lack the requisite resources. The end result of returning Customs' UH-60s to DOD would be a severe degradation of our ability to apprehend air smugglers entering the U.S. Once drug traffickers realize there is no threat of apprehension behind our air interdiction screen, they will quickly return to U.S. airways to bring their drugs into the country.

Question: Is Customs under any requirement to return these aircraft?

Answer: In 1994, the Army drafted a revised loan agreement which called for the return of three Black Hawks in the fourth quarter of each fiscal year until all aircraft have been returned. Because the loan of the Black Hawks was initiated by Congress and Customs has been charged by the Office of National Drug Control Policy (ONDCP) with the responsibility as lead agency for interdicting contraband smuggled by land and air, Customs was, and continues to be, of the opinion that it would be inappropriate to enter into such an agreement.

Question: Have any of these aircraft been returned?

Answer: Because of Customs continuing need for the Black Hawk helicopters, Customs has not voluntarily returned any Black Hawks to the Army. The Army did, however, retain a Black Hawk Customs inducted at the Corpus Christi Army Depot following damage sustained from Hurricane Andrew. Of the total repair cost of $4.6 million, Customs only had enough funds to reimburse the Army in the amount of $2.0 million.

Question: I understand that Customs is attempting to secure 14 C-12 aircraft from the Army that it is planning to excess. What is the status of that request and what would these aircraft be used for?

Answer: After learning of the Army's intentions to declare a number of its C-12 fleet excess, Customs has solicited the assistance from the Deputy Assistant Secretary, Office of Drug Enforcement Policy and Support, by letter, in obtaining, through transfer, 14 of the C-12 aircraft which are slated for excess and retaining the three C-12s still on loan to Customs. We have a need for additional aircraft of this type to carry out our criminal investigative and maritime surveillance responsibilities. Furthermore, the transfer of these aircraft to Customs would allow us to dispose of several types of twin-engine airplanes and standardize with turbine-powered aircraft.

Question: If you acquire these aircraft, do you have sufficient funds in your budget to operate and maintain these aircraft?

Answer: Yes. In fact, the number of C-12s that Customs requested was determined with existing budget constraints in mind. No increase in the operation and maintenance costs in the O&M account are anticipated at this time.

Question: If Customs acquires these aircraft, would this permit you to excess obsolete or expensive aircraft being used for the same purpose?

Answer: Yes. With the acquisition of these aircraft, Customs would be able to replace other aircraft which are either obsolete and/or more expensive to operate.

Question: What would be the impact on your air interdiction activities if these aircraft were returned?

Answer: Assuming that this question is referring to the three C-12s still on loan to Customs, this agency has a need for additional aircraft of this type to carry out its criminal investigative and maritime surveillance responsibilities. If allowed to retain these three aircraft, Customs would be able to replace other aircraft which are either obsolete and/or more expensive to operate.

Question: What requests do you currently have pending before the Department of Defense for additional aircraft? What is the status of those requests?

Answer: The only pending request is for additional C-12s. A meeting is scheduled for early May between ONDCP, Customs, and DoD officials to discuss this request.

Aerostats/ROTHR

- The Department of the Air Force has both funding and policy responsibility for the aerostat interdiction balloons, predominately supporting Customs drug enforcement activities, all along the Southern border of the U.S.

Question: In your opinion, has the Air Force been operating the aerostats in a manner that is consistent with law enforcement objectives?

Answer: Those aerostats that are funded and operational do in fact support law enforcement objectives.

Question: Is funding sufficient to operate these balloons at the optimum level?

Answer: Since Customs is not involved in the determination of aerostat operational funding levels nor in the expenditure of those funds, we are not in a position to make any determination as to the sufficiency of aerostat funds. We have noticed, however, that some aerostats are experiencing extended periods of maintenance downtime, but are unaware if this is due to inadequate operational funding.

Question: What is the status of ROTHR?

Answer: There are two operational ROTHR sites: one in southeast Virginia, and the other in east Texas. A third site is planned for Puerto Rico, but is not yet finalized.

Question: Does Customs continue to believe that OTH technology will not provide the support required to meet its mission needs?

Answer: The Customs position regarding OTH technology is unchanged. ROTHR was never intended to be a law enforcement tool to interdict air smugglers. We do believe, however, that it has a place among our array of sensors. ROTHR tracks cannot be sorted beyond the basic identification phase to determine their legal status; altitude and transponder information is not provided; and the ability of ROTHR to detect tracks is dependent on ionospheric conditions

Question: Can you provide for the record a detailed listing of the status of all aerostats? What percentage of the time were they up and operating, what percentage of the time were they down due to weather, maintenance, or other factors?

Answer: The following is the status of all the aerostats and the percentages of uptime and downtime for FY 96 through March. The "other" category includes time spent in an other than operating condition such as: deployment and retrieval; training of operators and ground crew; change-out of equipment; and situations where the aerostat must be shutdown by direction of other government agencies.

Aerostats Operational Status

Location	Uptime Percent	Downtime Percents			
		Weather	Maintenance	Other	Total
Cudjoe Key	66.2%	21.4%	5.3%	7.1%	33.8%
Ft. Huachuca	29.8%	29.8%	37.3%	3.1%	70.2%
Deming	68.7%	25.3%	4.5%	1.5%	31.3%
Yuma	80.3%	7.9%	3.9%	7.9%	19.7%
Marfa	15.0%	13.2%	22.6%	49.2%	85.0%
Eagle Pass	60.7%	24.0%	8.5%	6.8%	39.3%
Rio Grande City	15.2%	15.5%	10.5%	58.8%	84.8%
Puerto Rico	27.2%	16.7%	9.4%	46.7%	72.8%
Matagora	62.0%	29.5%	6.1%	2.4%	38.0%
Morgan City	71.1%	22.4%	4.4%	2.1%	28.9%
Horseshoe Beach	63.6%	29.4%	4.7%	2.3%	36.4%

Administrative Overhead Reductions

- The President's Executive Order, 12837, requires all Federal agencies to reduce overhead by 14% between fiscal years 1994 and 1997.

- In fiscal year 1997, the Customs budget is reduced by $13.695 million to comply with the Executive Order.

- In addition to the mandated reductions through the order, the Congress also applied an additional 5% administrative cut in fiscal year 1996.

Question: What has been the cumulative impact of the reductions in overhead and administrative activities since FY 1994?

Answer: Since FY 1994, Customs has been subject to numerous reductions in funding in "administrative overhead," as well as in personnel costs. The following table summarizes these reductions.

REDUCTIONS IN BASE FUNDING PRESIDENT'S BUDGET FY 1994-FY 1997
(Dollars in Thousands)

Appropriation	Object Class	FY 1994	FY 1995	FY 1996	FY 1997	Total
Total Reductions						
Salaries and Expenses						
	Executive Order 12837	-8,490	-8,938	-10,996	-13,695	-42,119
	FTS 2000	-3,660	0	-1,585	0	-5,245
	Rent Savings	0	-5,793	0	0	-5,793
	FLSA Savings	0	-2,641	0	0	-2,641
	Procurement Savings	0	-2,142	0	0	-2,142
	Workforce Restructuring	0	0	-5,542	0	-5,542
	Adminstrative Overhead	0	0	-2,677	0	-2,677
	Total Reductions	-12,150	-19,514	-20,800	-13,695	-66,159
Operations and Maintenance						
	Executive Order 12837	-3,691	-3,885	-2,435	-6,922	-16,933
	Procurement Savings	0	-758	0	0	-758
	Total Reductions	-3,691	-4,643	-2,435	-6,922	-17,691
Small Airports						
	Executive Order 12837	-4	0	0	0	-4
	Executive Order 12839	-32	0	0	0	-32
	Additional FTE Cut	-49	0	0	0	-49
	FTS 2000	-9	0	0	0	-9
	Total Reductions	-94	0	0	0	-94

Administrative Overhead reductions were prescribed in the FY 1996 Conference Report

The Salaries and Expense assessment is lower than originally prescribed pursuant to E.O. 12837; it takes into account the $2.677 million reduction in administrative overhead assigned in the FY 1996 Conference report as a pre-payment against FY 1997.

Question: Have any specific activities suffered as a result?

Answer: The FY 1997 President's budget recognizes that some of these savings did not materialize in the areas intended, leading to reallocations out of other areas such as vehicle replacement. Therefore the budget includes $4,805,000 for replacement vehicles ($2.0M to be provided from the Violent Crime Reduction Trust Fund (VCRTF)), $2,400,000 for protective vests and surveillance equipment, and $2,000,000 for agent relocation to correct these identified deficiencies.

Question: What will be the impact of these further reductions in FY 1997, and where will they be taken?

Answer: Reductions in FY 1997 are $13.695 million for Salaries and Expenses and $6.922 million for Operations and Maintenance. These reductions will be taken in object classes 21-31, with the exception of 23.1, GSA rent.

Question: Are increases being requested in FY 1996 *[sic]* for initiatives like vehicle replacement and permanent change of station moves as a direct result of the erosion of base funding in many object classes that support operational requirements?

Answer: In effect, the FY 1997 requested increases they adjust for prior reallocations out of these areas to cover previously estimated cost savings for items such as GSA rent and telecommunications that did not fully materialize.

Vehicle Replacement Program

- Customs is requesting an increase of $2.805 million for replacement of vehicles in fiscal year 1997.
- The justification states that out of a total fleet of 6,000 vehicles, 3,300 exceed GSA replacement criteria. By the end of 1997, Customs states that they will have nearly 5,000 vehicles that exceed the replacement criteria.
- The FY 1997 request will permit Customs to replace 149 vehicles.

Question: Will the 149 vehicles to be replaced be police-type vehicles or a combination of regular passenger vehicles?

Answer: The 149 vehicles to be replaced will consist of a combination of vehicle types. It is Customs policy to use appropriated funds to replace vehicles which meet the Federal Property Management Regulations (FPMR) replacement criteria. Based on the current condition of the Customs fleet, funds are allocated to replace vehicles with the highest mileage, with some exceptions granted for vehicles which are beyond economical repair. The new vehicles to be purchased will also consist of a combination of vehicle types (passenger sedans, 4X2 light trucks, 4X4 trucks, etc.) as

required based on the mission needs of the office for which the vehicles are purchased. Customs does not typically purchase police-type vehicles because they are easily identified as police vehicles and are not always conducive to Customs law enforcement and surveillance needs.

An additional 105 vehicles will be will be similarly replaced using the requested $2.0 million from the VCRTF.

Question: If Police Type vehicles, why are these needed and what is the cost difference?

Answer: As stated earlier, Customs does not typically buy "Police-Type" vehicles. However, police-type vehicles may be purchased to meet operational support and mission requirements. Police-type vehicles are equipped with the manufacturer's heaviest duty equipment and components offered commercially and are specifically designed for the demands of high speed pursuit. They are engineered for rigorous law enforcement use which provides increased useful life and reduced maintenance costs.

Customs has begun purchasing "taxi-type" vehicles for law enforcement purposes with specific options to allow the vehicle to appear as one generally available to the public. Taxi-type vehicles are also equipped with the manufacturer's heaviest duty equipment and components available as provided by the manufacturer commercially. Although taxi-type vehicles lack the police speedometer, speed rated tires, and transmission low-gear lock out or engine RPM limiter, the additional heavy duty components also provide increased useful life, and reduced maintenance costs.

Cost Comparison between Vehicle-Type Packages Available based on Like Models:

Vehicle Model	Police-Type*	Taxi-Type*	Standard*	Proprietary**
Camaro	$18,834	N/A	N/A	$19,478
Lumina	$16,246	$14,980	$14,287	$18,177
Crown Victoria	$18,666	$18,982	$18,822	$20,871

Office of Finance, Logistics Division, Fixed Assets Services Group, Personal Property Team - May 1, 1996

* GSA competitive contract - no manufacture/model choice; all vehicles purchased will be identical.

** Allows for a mix of makes and model to replicate diversity seen in the general vehicle population. More appropriate for investigative/surveillance operations.

Question: At a replacement rate of 149 per year, it will take 33 years for Customs to replace 5,000 vehicles that exceed the GSA standards by the close of Fiscal Year 1997. This is an unrealistic solution. Have other solutions been evaluated, if so, what has been the result of those reviews?

Answer: Over the years, Customs has conducted several studies and reviews to assess and provide recommendations to improve the quality of the vehicle fleet. Each study has resulted in the same or similar concerns. Customs has a rapidly aging fleet with little funding to replace it. As a result, Customs has revised its vehicle and funding allocation and distribution policy to improve the quality of the Customs fleet and provide appropriate, reliable, and safe transportation for Customs employees. The following highlights the major policy revisions implemented to improve the quality of fleet, revitalize our vehicle program, and maximize our buying power:

a. Vehicle-to-Employee Ratios have been implemented to serve as the mechanism to authorize vehicles by type of personnel position, and as a benchmark for allocating fleet resources by office.

b. Standardized vehicle features and options have been established to reduce the purchasing cost of new vehicles. As a result, the average vehicle purchasing cost has been reduced by $1,485.

c. To maximize our buying power, we are mixing vehicles types and purchasing a percentage of vehicles from the standard contract for law enforcement organizations. The standard vehicles are equipped with certain features to ensure mission support, appropriateness, and not compromise the safety of law enforcement personnel. In FY 1996, we realized a net savings of $65,210 which purchased an additional 3 vehicles for replacement.

d. Sedan purchases are restricted to subcompact and compact vehicles in accordance with the Federal Property Management Regulations except for justified law enforcement mission requiring mid-size vehicles. Large sedan purchases must be justified through the appropriate Assistant Commissioner for law enforcement purposes. The requirement for mini vans and trucks is not affected. This effort allows Customs to purchase a few additional vehicles.

e. Vehicle funds are allocated to replace those vehicles with the highest mileage. To ensure equity among all Customs organizations, funding and vehicle allocation is based on the percentage of vehicles comprised of the total population of vehicles within a specified mileage. For instance, the initial goal is to target the 11 percent of the Customs fleet with over 100,000 miles.

f. Forfeited vehicles retained for official use are also allocated to replace vehicles with the highest mileage within the geographical area of where the forfeited vehicle is located. This effort will minimize transportation and other related costs. In FY 1996, a total of 45 forfeited vehicles

have been retained with an average mileage of 35,913 and average model year of 1992. These vehicles replaced 45 vehicles with an average mileage of 120,124 and average model year of 1987. However, Customs is sensitive to issues surrounding the use of certain luxury/performance vehicles in our work. These concerns somewhat limit the utility of seized vehicles as a replacement option.

In December 1994, the General Accounting Office prepared a report to congressional requestors entitled Federal Motor Vehicles , Private and State Practices Can Improve Fleet Management (GAO/GGD-95-18). Fleet managers in state governments stated that predictable funding could help Federal Agencies recover the full costs of fleet operations and to consistently fund the replacement of vehicles in a timely and economical manner. Over the last three years, the Customs vehicle fleet has continued to deteriorate as a result of financial plan considerations. Customs has relied on the Treasury Forfeiture Fund, COBRA, HIDTA, and special initiatives to replace vehicles meeting the FPMR replacement criteria.

We have also tried to maximize the use of exchange sale proceeds to fund replacement vehicles. However, the one-to-one restriction has impeded the full use of exchange sale proceeds. Currently, sale proceeds from the sale of one vehicle can only be applied to the purchase of one vehicle. This requires a substantial infusion of funding to make up the difference for the purchasing cost of the new vehicle. Current budget constraints limit our ability to purchase new vehicles and meet the one-for-one requirement. Since Customs is restricted by appropriation language, approximately 26% of the $702,911 in FY 1995 sale proceeds were "lost" due to the inability to purchase new vehicles without meeting the one-for-one requirement and unavailability of funds to make up the difference.

Question: What Percentage of Your Vehicles Are Owned vs. Leased?

Answer: The information is provided in the table below.

Acquisition Method	Number of Vehicles	Percentage
Customs Owned Vehicles	5,580	94.0%
GSA Leased Vehicles - Motor pool	334	5.6%
Commercially Leased Vehicles	22	0.4%
Total	5,936	100%

Question: Why can't more vehicles be leased, is this less costly?

Answer: The following table explains issues related to leasing of vehicles.

Issue Description	
Cost	The Presidential Council on Management Improvement (July 1992), stated manufacturers have stayed out of the commercial lease arena because of the liability requirements for operating leases imposed on vehicle lessors. Additionally, GSA is no longer the mandatory source of supply for commercially leased vehicles. As a result, only PHH, Capital, and Acme remain as the major lease suppliers. This results in higher leasing costs. The results of a cost comparison between purchased, GSA, and commercially leased vehicles conducted by Customs in July 1995, revealed that leasing costs are generally higher than purchasing costs (excluding indirect costs). GSA leasing costs are, at a minimum, 8% higher than purchasing costs and commercial leasing costs are, at a minimum, 18% higher. These percentages do not include additional charges such as excessive mileage and reconditioning charges upon lease returns. Due to the nature of the vehicle use, these additional costs could be sizeable.
Equipment/ Availability	Currently, GSA and commercial lessors are restrictive in the type of vehicles and associated options and equipment packages available. Most leasing vehicles are "standard" vehicles not equipped for law enforcement purposes. Additional equipment and option requirements such as heavy duty components can be accommodated; but at a higher leasing cost. The relatively small volume of vehicles does not provide sufficient buying leverage with the major manufacturers to provide a reasonable leasing cost. In addition, Customs requires certain modifications to the vehicle electrical systems to accommodate enforcement radios, antennas, etc. These modifications are not typically authorized in leased vehicles; and if authorized, carry a reconditioning cost at the time the vehicle is returned.
Funding Requirements	Customs is unable to enter into multi-year contracts with vehicle lease providers as funding provided is Fiscal Year specific. As a result, commercial lease costs are significantly higher than those under multi-year contracts. Additionally, leasing of vehicles using annual funding exposes Customs to the risk of losing vehicle fleet in a funding lapse. Currently, if acquisition funds are cut, Customs still has a vehicle fleet to continue the mission until funding is resolved. In a lease environment, this is not the case as we would lose our vehicles, having a detrimental effect upon our mission. Customs has recently reduced the quantity of commercial lease vehicles to a total of 22 to address this and higher costs concerns.

Rent Shortfalls

For the past several years, Customs has had to reprogram funds out of other activities to cover increased costs of rent to GSA. While GSA estimates rent billings based on actual space, it does not take into account new space that may be coming on-line. As a result, billings for this space come during the fiscal year which Customs did not budget for.

Question: I am concerned about the reliability of the estimates that GSA provides to Customs for budgeting purposes to cover the costs of rent. For the past 3

fiscal years, can you provide the Committee with the amount of estimate for rent provided by GSA during budget formulation and the amount actually billed Customs during the year for rent?

Answer: The information is presented below:

FY 1994 - GSA Rent Estimate provided Customs	$106,524,000	
FY 1994 - GSA Actually Billed Customs	$111,875,000	(*)
FY 1994 DIFFERENCE	**$5,351,000**	

(Amount actually billed by GSA would have been $117,627,000; but Customs accomplished nearly $6,000,000 in charge-backs by challenging GSA's classifications of space and rent rates assessed nationwide.)*

FY 1995 - GSA Rent Estimate provided Customs	$109,447,264	
FY 1995 - GSA Actually Billed Customs	$115,977,119	(**)
FY 1995 DIFFERENCE	**$6,529,855**	

*(** Amount actually billed by GSA would have been $116,717,119; but Customs accomplished $740,000 in charge-backs by challenging GSA's classifications of space and rent rates assessed nationwide.)*

FY 1996 - GSA Rent Estimate provided Customs	$117,599,000	
FY 1996 - GSA Actually Billed Customs	$123,839,879	(***)
FY 1996 DIFFERENCE	**$7,106,000**	

*(*** Annualized rent billed to date is $120,600,000; however, Customs estimates another $3,239,879 for anticipated space increases before the end of this fiscal year.)*

Question: For FY 1997, do you believe the amount of funding for GSA rent to be sufficient to cover the full year costs?

Answer: The estimate in the FY 1997 President's Budget reflects all known rent costs at the time the budget was submitted to OMB. Based on an OMB position concurred with by GSA, there was no rent inflation adjustment requested for FY 1997. A subsequent Customs estimate is under review and may change as new information becomes available. This amount includes estimates of costs for anticipated space increases before the end of FY 1997.

GSA Direct Rent Estimate provided to Customs	$118,647,000
Customs Logistics Division Rent (Estimate)	$134,285,000
Funds in Budget for GSA Rent	$118,088,000
PROJECTED DIFFERENCE	**$16,197,000**

Question: What steps do you believe can be taken to ensure that Customs is given more reliable estimates during the budget formulation process:

Answer: The annual GSA Rent Estimate provided to client agencies does not include rent estimates for "pipeline" projects. These are GSA-initiated, prospectus-level new construction and major renovation projects that have construction cost estimates already available to GSA. GSA should include these "pipeline" projects in their rent estimate; and they should do it in a timely manner. There is often a lag time of as much as 27 months between the time that Customs occupies a new border station and/or facility and the time that the estimated additional rent cost associated with these facilities is included in the "official" GSA Rent Estimate. Without reliable rent estimates from GSA for these projects (or for the anticipated joint use space assignments in the new facilities), it is very difficult for the client agencies to formulate budget estimates in sufficient lead-time to acquire appropriate funding in the appropriate fiscal year.

Technology Planning and Evaluation Unit

- Customs is requesting an increase of $2,500,000 and 5 FTEs for the creation of a technology planning and evaluation unit. The justification states that the unit will prototype intelligent targeting systems for the Southwest land border ports.

- In fiscal year 1996 the Administration requested and the Congress provided funding for new cargo scan technology. In addition, an additional $14.2 million has been requested in fiscal year 1997.

Question: What is the status of funding provided to DoD in fiscal year 1996 for the procurement of cargo scanners at ports of entry?

Answer: DoD will probably provide $10M in FY96 funding for 3 truck X-ray systems for the Southwest Border. Preparation of the contracting package has begun so that when funds are made available, they can be obligated immediately.

Question: What is the status of funding provided through Operation Hard Line for other cargo scanning equipment?

Answer: Customs has purchased 2 systems with FY95 funds. A third system has been purchased with FY96 Hard Line funds, and a fourth system will be purchased with FY96 Hard Line funds as soon as the new contract with the vendor is negotiated. Hard Line funds are requested in FY97 for the purchase of additional systems.

Question: Why do you believe funding for these technologies should be released as quickly as possible? Who is holding this up?

Answer: The truck X-ray system being procured for Hard Line is based on the DOD-funded prototype at Otay Mesa, California. In its 20 months of operation, this system has consistently demonstrated its ability to detect drugs concealed in trucks and other vehicles; total drug seizures are over 11,000 pounds. While certain mechanical components require refinement, the system meets our operational requirements, fits within our physical and fiscal constraints, and is endorsed by our inspectors as an essential enforcement tool. The Otay Mesa system started making drug seizures as soon as it began operation; the sooner the additional systems in operation, the sooner there will be an impact on drug smuggling through Southwest border ports. In addition, there will be some savings on the cost of these systems if we are able to get them under contract sooner. Our decision to buy these truck X-ray systems was reviewed, the concerns have been addressed, and the process is now moving as quickly as possible, subject to completion of acceptance testing of the Otay Mesa pilot.

Protective Vests and Surveillance Equipment

- Customs is requesting $2.4 million for the purchase of protective vests and investigative support equipment. The justification states that due to funding shortfalls, Customs has been unable to replace basic investigative equipment for its agents.

Question: Can you give us an itemization of what specifically will be purchased for this $2.4 million for equipment?

Answer: Protective vests will be purchased for a cost of approximately $1.4 million. These will be distributed in priority of those agents not having protective vests and those vests beyond the industry standard of five years.

The following provides a list of investigative support equipment planned for acquisition using these funds:

• vehicle and package tracking equipment	$350K
• telephone pen register equipment	$250K
• low detectability body wire equipment	$150K
• video surveillance platforms	$250K
TOTAL	$1,000K

Question: Haven't the administrative reductions contributed to this funding shortfall, and if so why is an additional reduction of $13 million being proposed, which, technically, will hit the very same object class that you are trying to increase?

Answer: The proposed $13.695 million reduction for administrative expenses is, in effect, adjusted by requested funding for identified deficiencies such as protective vests and surveillance equipment.

The additional reduction of $13 million is Customs share of the final installment of Executive Order (EO) 12837. EO 12837, signed February 10, 1993, directed agencies to submit budgets that reflected reductions in "administrative expenses" of no less than a total of 14 percent, adjusted for inflation, over a 4-year period, FY 1994-FY 1997. Subsequent guidance indicated that EO 12837 reductions were to be taken across the board. However, sufficient savings could not be identified in administrative productivity without affecting the "operational base."

At the same time, Customs continues to have mission related costs, such as those to replace aging and obsolete investigative/enforcement equipment. Customs has requested $2.4 million for the purchase of protective vests and investigative equipment because the agency has not been able to identify available resources in its "operational base."

Question: There have been many technological improvements in surveillance equipment and protective gear over the past few years. Has your agency been able to purchase state-of-the-art equipment in this area for your agents to ensure their safety? If not, can you explain how old the existing equipment being used by your agents is?

Answer: We are attempting to take advantage of the new technology safety equipment, however, this new funding is crucial to acquire these items. Customs will purchase new high technology protective vests comprised of Spectra and Kevlar blended material. These vests are more resistant to high impact strikes compared to the older versions of the Kevlar vests. The industry standard for the shelf life of the material in the protective vests is five years. This may vary depending on the amount of usage and storage of the vests. Many of the vests currently in use today are well beyond the five year industry standard. We have also not been able to properly equip every agent with protective vests due to the funding shortfall.

Additionally, some new ballistic shields have been purchased which protect the entire body in a high risk enforcement situation. Other protective equipment for tactical enforcement situations would include helmets, protective goggles, Nomex gloves and boots.

Due to funding shortfalls, many officers have not acquired investigative equipment since the mid-1980s. Therefore much of the equipment in the inventory is old, difficult to maintain and, in some cases, obsolete. Customs requires up-to-date equipment to counter new technologies available to the criminal as well as the legitimate consumer.

Agent Relocation

- Customs has requested an increase of $2 million for permanent change of station moves for its agents. The justification states that Customs has had to forego many moves of agents required for integrity purposes and also to bring experienced agents to areas of most critical need. The FY 1997 request will fund the move of 40 agents.

Question: The $2 million increase for permanent change of station moves for your agents will fund 40 moves. Is this in addition to those that will be funded in your base budget? If so, what is the total amount of funding in your budget for PCS moves and how many agent moves will this fund?

Answer: No, these PCS moves are not in addition to any moves funded by Customs base budget. Customs relies on "ad hoc" resources for permanent change of station moves. Since FY 1994, the Customs base budget has been reduced approximately 14 percent as a result of Executive Order (EO) 12837. The original intent of EO 12837 was to achieve administrative productivity and cost savings similar to those in the private sector. However, when some anticipated reductions did not materialize, Customs needed to move base resources from PCS moves to respond to more immediate requirements. Now Customs funds PCS moves only as resources become available and if there are special hardship cases that must be done immediately. Additionally, during reorganization, Customs was able to take advantage of some temporary salary savings to redeploy staff to the field under PCS arrangements.

Question: Ideally, to ensure the integrity and bring expertise to areas requiring experienced and seasoned agents, what is the optimal level of PCS moves that Customs requires a year? What is the cost?

Answer: Amid allegations of corruption and impropriety by Customs law enforcement officers, a Blue Ribbon panel committee was convened by Customs in FY 1991 to address these issues and recommend solutions to them. As a solution to the perceived problems of corruption and impropriety, the Blue Ribbon panel committee recommended a seven year rotational cycle to ensure that agents are relocated at least three times in their career. Customs has tried to implement these recommendations in good faith, but the cost has always been prohibitive. Currently, to accomplish the seven year rotational cycle, Customs would have to relocate 415 agents every year. If fully implemented, this policy would cost approximately $21-$25 million.

Reimbursement to Office of Inspector General for Government Management Reform Act Audits

- The FY 1997 budget proposes the transfer of $497,000 to the Office of the Inspector General for audited financial statements for each office and bureau.

Question: Can you explain why Customs is required to transfer $497,000 to the Inspector General's Office for audited financial statements?

Answer: The Government Management Reform Act (GMRA) of 1994 (P.L.103-356) requires that, not later than March 1, 1997, and each year thereafter, agencies subject to the Chief Financial Officers (CFO) Act submit audited financial statements covering all accounts and associated activities of each office, bureau, and activity of the agency. GMRA also prescribes that the Director of the Office of Management and Budget (OMB) identify components of CFO Act agencies that shall be required to submit separate stand-alone audited financial statements for Fiscal Year 1996 and beyond. OMB, in consultation with the CFO Council, developed criteria for identifying agency components that should be required to submit stand-alone audited financial statements that includes among other criteria, the component's having complex accounts with substantial fund flows or requiring additional financial reporting disclosure and audit assurance due to such factors as the significance of its fiduciary responsibilities. Customs meets these criteria and is required to submit stand-alone financial statements.

Accomplishment of the GMRA financial statement audit effort requires a substantial increase in the Office of the Inspector General workload. Since the resources available within the OIG appropriation are not sufficient to fully fund the increased workload, components of the Treasury will need to bear their equitable share of the cost for audit efforts on their behalf as well as on behalf of the Department. To this end, the OIG has established partnerships with the Treasury bureaus to finance the cost of the audit effort. In the past two years, the OIG has borne the cost of performing Customs financial statement audits.

Question: Why can't this work be done by Customs?

Answer: The Customs Service, as one of the Treasury bureaus with important commercial activities, was specifically designated in the act as a pilot agency for preparation of initial financial statements by March 31, 1993. Section 301 of the CFO Act specifies that the audit of the financial statements shall be performed in accordance with applicable generally accepted government auditing standards, and, in the case of an agency having an Inspector General, by the Inspector General of that agency. Because of its interest in the CFO pilot projects, the General Accounting Office requested that it perform the initial two audits of Customs financial statements. However, the Office of the Inspector General (OIG) has performed the subsequent audits and will be performing future audits as required under the provisions of the CFO Act.

Question: Is the money being transferred from Customs currently being used for other financial management activities or is this amount to be transferred the actual amount currently being expended for audited statements that will no longer be a responsibility of the Customs Service?

Answer: The $497,000, proposed as an increase to Customs budget, responds to a Customs responsibility to reimburse the Office of the Inspector General, through a memorandum of understanding, for the required audit services.

The audit of the financial statements has not been a responsibility of the Customs Service and funds have never been expended for the purpose of the CFO audit by Customs. These are also not funds currently being used for other financial management activities. The Office of the Inspector General has undertaken significantly greater workloads in the last two years through performance of the CFO audits for Treasury bureaus, but was not reimbursed for this work. The request for funds in Customs FY 1997 Budget for this purpose is consonant with a Departmental policy to assure adequate reimbursement by all affected bureaus to the OIG for the additional burdens of performing the CFO audits of financial statements.

Question: What will be the impact if this transfer is denied?

Answer: Customs is required by the GMRA law and agency policy to have the OIG perform these audits and reimburse the OIG for its work. Without the additional $497,000 requested, Customs will be forced to reimburse the OIG out of its base funding thereby reducing the resources available for its enforcement and trade missions.

International Trade Data System Transfer to Departmental Offices

- The FY 1997 budget proposes the transfer of $5.6 million for an International Database Project Office and the NAFTA prototype office.

Question: Is this $5.6 million to be transferred to DO for a database project, an activity that is currently being carried out by the Customs Service, and if the transfer is effected, does this mean that Customs will no longer be required to maintain international information in its database?

Answer: The Customs Service is not currently engaged in any project or activity comparable to the International Trade Data System (ITDS) project except that which is attributable to their participation in the ITDS project itself.

The project's task is to develop and implement a data system to meet the needs of both the operational and analytical missions of over sixty federal agencies with responsibilities related to international trade. While there are database components in such a system, they are not the dominant consideration.

The Customs Service has responsibilities focused on such functions as the collection of trade-related revenues and interdiction of contraband at the border, which are not the totality of this overall system. (Other segments relate to INS, DOT, FDA, USDA, etc.) Customs should certainly continue its efforts to achieve and maintain effective management of the information resources needed to perform its mission, and those efforts are complimentary to the overall system. Customs has expressed opposition, however, to being made the federal government's collector or depository for international trade information for such uses as trade administration, policy analysis, or protection of the public health and safety.

The activities, functions, and personnel that Customs had been devoting to the government-wide international trade data system and the NATAP operational test were dedicated by Customs to the Project Office for the duration of the project. The transfer of funds proposed in the budget is necessary to supplement those resources and to continue that work. For example, about half of the $5.6 million will directly fund NATAP, which is a real world test of the integrated data concept that has been negotiated among the U.S., Canada, and Mexico to reduce the repetitive reporting of routine information and improve its processing.

Question: Specifically, what is this project?

Answer: Following upon a highly successful pilot conducted in Seattle that demonstrated the significant process improvements available through electronically sharing import declaration information, the National Performance Review recognized this potential, and more, in its recommendation IT06 Establish an International Trade Data System (ITDS). An interagency study group developed concepts and recommendations for an ITDS, and by memorandum on September 15, 1995 the Vice President accepted the study group's report and launched the project under interagency direction with a Project Office in the Departmental Offices of Treasury. The project is charged with implementing an integrated, government-wide ITDS.

Question: Why is this being proposed as a transfer to Departmental Offices?

Answer: The project's charter specified Treasury's Departmental Offices for location of the Project Office based on IT06 interagency study group's recommendation that the project will require an independence from the major agency stakeholders in order to achieve the necessary changes in a fair, even-handed way. To maintain this neutral independence, it is essential that the funding be transferred along with the mission and personnel.

Adjustments to Maintain Current Levels

- The FY 1997 budget proposes increases of $47.321 million to maintain current levels. Of this amount, $5.611 million is related to the pay raise and the remainder, $41.710 million is to maintain current levels.

Question: Does the annualization include the full amount required for the fiscal year 1997 pay raise? How much has been included for the FY 1997 pay raise?

Answer: The FY 1997 pay raise will be annualized in the FY 1998 budget. The current amount requested for the FY 1997 pay raise is $21.8 million. This amount will fund the across-the-board 3.0 percent increase requested by the administration. This amount will fund Customs pay-raise obligations for three-fourths of FY 1997 since the raise becomes effective in January 1997.

The FY 1997 budget requests $5.6 million to annualize the enacted FY 1996 pay raise of 2.4 percent. An amount of $17.1 million was requested in the FY 1996 budget to pay for the January 1996 pay raise for three-quarters of a year.

Small Airports User Fee Account

- For FY 1997, Customs is requesting $2.4 million and 50 FTEs for the Small Airport User Fee program. This amount is $1.0 million and 20 FTE above the FY 1996 proposed level. These funds are derived from the receipts from airports participating in the program to cover the costs of Customs inspection services.

- The justification identifies 26 small airports participating in this program.

- In the supplemental, the Committee has to list the "cap" on the amount of funds that could be expended for this program because not enough had been budgeted to cover the full costs of reimbursement to Customs. As a result, Customs was unable to provide the full level of service for existing and new airports coming into the program in fiscal year 1996.

Question: Given the experience from fiscal year 1996, why is an appropriations cap being requested?

Answer: At the time the President's Budget was submittted, Customs requested a $1 million increase to enable the program to meet the workload demand of customers. Removal of the cap on appropriations required extensive coordination with the Appropriations Committees in order to address any budget scoring issues.

Question: Will the amount requested fully fund the existing airports and accommodate requests from new airports for this service in fiscal year 1997?

Answer: Yes.

Representation Fund

- Customs is authorized to expend up to $20,000 annually on representation expenses.

Question: Can you provide a detailed listing of how these funds have been expended?

Answer: For FY 1996 as of March, Customs has obligated 57% of the $20,000 provided. Customs has used representation funds to receive 86 foreign dignitaries from 16 countries.

Other events include International Customs Day, Caribbean Customs Law Enforcement Meetings, International Association of Chiefs of Police and events to host the victims' families of the Oklahoma bombing.

Child Pornography

- In fiscal year 1996, the Committee instructed Customs to make available no less than $50,000 to the National Center for Missing and Exploited Children for Project Alert.

Question: Has Customs transferred these funds to the Center, if not, when do you expect to take this action?

Answer: The FY 1996 Senate Appropriation Committee report language (Sen. Report 104-121) states that:

> "...The committee, therefore, directs the U.S. Customs Service to provide $50,000 from available funds to promote public awareness for the Child Pornography Tipline in fiscal year 1996. The Committee recommends that the U.S. Customs Service coordinate this promotional effort with the National Center for Missing and Exploited Children and the U.S. Postal Service to ensure that the publicity is diversified and effective."

We expect these funds to be expended before the end of FY 1996.

Question: How many former Customs agents are participating in this initiative?

Answer: There are currently two former agents working with the National Center for Missing and Exploited Children (NCMEC).

Question: In light of the recent debate over the release of repeat child sex offenders, what actions is the Customs Service taking to increase the number of calls to its national Tip-Line?

Answer: The Tip-Line is located at, and run by the NCMEC. In FY 1995, the Customs Service made available to the NCMEC $40,000 to promote the use of the Tip-Line to report suspected child pornography violations. This money came directly

from the Customs Service budget and was not allocated to Customs by the appropriations Committee.

At this time, there is an ongoing initiative between the Customs Service and the NCMEC to design and print new posters, pamphlets, keychains, and produce a public service announcement, promoting the Tip-Line. It is expected that this initiative will be completed by September 1996.

Question: How many Customs personnel are allocated to Child pornography violations?

Answer: As of April 30, 1996, the Assistant Commissioner, Office of Investigations, approved the establishment of the International Child Pornography Investigation and Coordination Center. This center will be staffed by four agents who will be dedicating their efforts full time to child pornography violations.

In addition, each Customs field and Attache office has at least one agent who is assigned to work child pornography cases.

Question: Can you please provide for the record the number of cases which have been reported in fiscal year 1995 to the Tip-Line? How does this compare to previous years?

Answer: Fiscal Year 1995 - 50 cases
Fiscal Year 1994 - 20 cases.
This information was provided by the NCMEC.

Bureau of Alcohol, Tobacco and Firearms

Base Funding

Almost every law enforcement agency under Treasury's jurisdiction is experiencing serious funding shortages to fully fund existing FTEs and other base program requirements.

Pay raises not fully funded, no base increases for career ladder promotions, absorption of rent increases, reductions in equipment, contract, travel and other object classes mandated through administrative across-the-board reductions have significantly contributed to this problem.

An increase of $5 million has been requested in '97 to partially offset shortages in base funding. However, the budget also includes a "program reduction" of $3,750 million, with no explanation. This is in addition to a $302,000 reduction mandated by Presidential Executive Order. So, essentially, the increase comes out to only $1 million to restore base.

Because of base shortfalls, the 1997 budget proposes the elimination of 258 FTEs from its authorized level.

Question: What are the base shortfalls in ATF's budget to fully fund the cost of its current FTE level and maintain adequate funding levels for equipment, supplies, information resources, rent, and other object classes that fully support the level required to meet that FTE and ensure proper implementation of programs?

Answer: The following presents dollars in thousands, and includes both direct and crime bill funding, but does not include the new laboratory construction project:

Object Class:	FY 1997 Optimal
11 Salaries	235,260
12 Benefits	80,380
13 Former Benefits	115
21 Travel	18,037
22 Transportation	1,176
23 Rent, Communications,Util	54,502
24 Printing	1,568
25 Other Services	56,462
26 Supplies	7,058
31 Equipment	23,918
42 Indemnities	140
43 Interest and Dividends	1
Total Funds	$478,617
Total FTEs	3,921

The above funding is based on the FTE level as requested to the Congress. If ATF were to receive funding to fully maintain the FTE level as authorized by the Congress in FY 1996 (4,037), an additional $42 million would be required.

Question: Why has the base become so eroded over the years?

Answer: The passage of the Federal Employees Comparability Act of 1990 (FEPCA) was the beginning of the base erosion problems, especially with law enforcement entities. The Act included additional pay items for law enforcement officers. Among these changes were a higher pay scale than general schedule pay, up to a GS-10, for an agent; locality pay; and the removal of the overtime cap, so agents no longer are capped for overtime at GS-10 step 1. Congress directed that agencies absorb 50% of these pay increases. ATF's workforce is predominately special agents with jurisdictions located in areas receiving the maximum locality pay. Therefore this absorption resulted in a severe reduction to the base. Additionally, The Fair Labor Standard Act (FLSA) payments exacerbated the shortfall further. All of these adjustments have had a negative cumulative effect on the Bureau's base funding. As an example, in FY 1992 alone, the Bureau sustained a $10 million and 169 FTE reduction due to the passage of FEPCA.

Additional factors contributing to the problem are: rescissions; procurement savings; Executive Orders 12837 and 12839; the Workforce Restructuring Act; rent, utilities, telecommunications costs increasing faster than the rate of inflation; and the earmarking of funds.

Question: Have you attempted, through the budget formulation process, to shore up the base? If so, why have those efforts been unsuccessful?

Answer: We have attempted and will continue to attempt to address this complex issue, as it is an ongoing process.

Question: Why ask the Congress to fund $118 million in new initiatives, including a consolidated lab facility, instead of just simply requesting the full funding for your base operations?

Answer: The $62 million requested to build a new laboratory is necessary due to environmentally unsound working conditions at the present facility. Extensive justification for this one-time cost has been provided in the Bureau's General Statement provided by the Director.

Question: Would you support an action by this Committee to restore the base but forego the initiatives?

Answer: While each of our initiatives are critical to enhancing our mission and successfully meeting our strategic planning goals, it is important also that each employee in this bureau has the adequate resources to fulfill the Bureau's mission in a satisfactory manner. Fulfilling our Bureau mission also requires proper technology required to share intelligence, communicate and provide State and local law enforcement with information. Keeping the Bureau employees trained at an optimal

level is also of critical importance in meeting ATF's mission. This sustained superior level of training enables the Bureau's agents and inspectors to share their expertise with State and local regulatory and enforcement entities.

Question: What is the explanation for the general program reduction of $3.7 million across all object classes?

Answer: ATF hopes to achieve this savings of $3.7 M through enhanced program efficiencies.

Question: What impact will this have on equipment, labor costs, rent, etc.?

Answer: This reduction equates to 37 FTE which includes salary funds as well as rent, supplies and equipment funds associated with those FTE.

Question: Are you proposing the elimination of the 258 FTEs because your past and future budgets do not provide funding for their hiring and equipping? How long have you been short of funds to reach the full FTE level authorized? Are these 258 FTEs currently vacant. Where predominately, have they been attrited? What is the impact?

Answer: Yes. The Bureau's budget base has been eroding since FY 1990. The 258 FTE dollars being used to fund fixed costs and operations are remaining unfilled. The Bureau is backfilling positions on a case by case basis only. Many support positions for headquarters and field offices have gone unfilled, necessitating agents and inspectors to spend more time performing collateral duties and administrative work. Also, there have been a number of agent retirements during the last several years, which have not all been backfilled, thus causing a hardship in the field.

Equipment Funding

The 1997 budget contains an increase of $5 million to restore a base cut in equipment funding in fiscal year 1996. This brings the total equipment budget to $11.3 million in FY 1997.

The cut in 1997 reflected an advance appropriation to cover this cost in the FY 1995 supplemental.

Question: The proposed increase to restore the base for your equipment object class will bring the equipment budget to $11.3 million. Is this sufficient to support a level of 3,859 FTEs? It doesn't seem like a lot of money out of a budget of $406 million. What is the optimal budget level for your equipment object class? What additional items could be funded if this activity was increased?

Answer: No. Optimum equipment needs to ensure cyclical replacements and to ensure completion of our strategic plan for technology is as follows:

	FY 1997	
Type of Expense	**Optimal**	**One-Time**
Investigative Equipment	2,600	1,500
Radio Equipment	3,853	
ADP Equipment	5,987	12,338
Motor Vehicles	7,296	19,800
Other Equipment	4,182	
Total Equipment	**$23,918**	**$33,638**

Investigative Equipment Assumptions: This category includes surveillance equipment and protective equipment. Items such as body transmitters and protective clothing receive heavy usage have an estimated life of five years. Other equipment such as cameras, video and audio recorders, and tracking devices have an estimated life of six to seven years. To bring our investigative equipment up to a normal six to seven year cycle, a one-time increase of $1.500 million would be required as well as the amount of replacements.

Radio Equipment Assumptions: In a response to Congress to auction off radio frequency spectrum, the National Telecommunications and Information Administration (NTIA) has mandated that all Federal agencies utilize radio equipment that operates under narrow band frequency standards. This NTIA mandate will make ATF's current inventory obsolete by the year 2005. In response to this, ATF has developed a Radio Communications Strategic Plan to upgrade our radio communications equipment over the next 8 years (approximately 12.5% annually). The optimum level reflects this plan. If all radio communications equipment would need to be replaced at one time $31 million would be required.

ADP Equipment Assumptions: Our optimal replacement cycle is 3 years based on industry best practice standards. The 33% annual replacement would be approximately $6.0 million. Since 68% of our current PC's are older than 3 years, a one time investment of $12.3 million would be necessary. Current inventory is as follows: 68% of our workstations are over 3 years old; 78% of our workstations are 386's or less; 69% cannot operate in a windows environment; and 91% of the workstations can not operate the Project Lead software. The Bureau's information architecture initiative contained in the President's budget merely begins a process of replacement. To bring our PC equipment up to a normal 3 year cycle, a one-time increase of $12 million would be required.

Vehicle Assumptions: Our fleet has an average mileage rate of over 67,000 per vehicle. The GSA recommended rate of replacement is every three years or 60,000 miles. The average replacement, if our entire fleet were up to standards, is $7.3 million for 456 vehicles each year. To bring the entire fleet up to standards, a one-time cost of $19.8 million would be required to replace 1,100 vehicles that have over 60,000 miles.

Reorganization Of ATF

There continue to be discussions on the Hill of reorganizing ATF and spinning off firearms compliance and enforcement activities to other agencies.

The Judiciary Committee intends to hold hearings on such a reorganization later this month with the possibility of reporting legislation mandating such a reorganization.

Question: Maybe this question should best be directed to the Assistant Secretary Jim Johnson, but I will ask it generally to the Director. Why do you believe the firearms, explosives and bomb enforcement and compliance activities should stay within ATF and not transferred to another law enforcement agency?

Answer: The attached document "ATF's Function and Role within the Department of the Treasury" describes why firearms and explosives jurisdictions should remain in ATF. (See pages 8 through 9 of attached document.) This document is submitted for inclusion in the record.

Question: In your view, what would be the adverse consequences if this were to occur?

Answer: The attached document "ATF's Function and Role within the Department of the Treasury" describes why firearms and explosives jurisdictions should remain in ATF. (See pages 8 through 9 of attached document.) This document is submitted for inclusion in the record.

Question: Why is there a fear of centralizing too much authority and jurisdiction under one large law enforcement agency?

Answer: The reasons why ATF's functions are within the Department of the Treasury are discussed in the attached document "ATF's Functions and Role within the Department of the Treasury." (See pages 10 through 11 of attached document.) This document is submitted for inclusion in the record.

Question: Assistant Secretary Johnson, has your office given any thought to reorganizing or restructuring Treasury's law enforcement bureaus? If not, why not?

Answer: Several times within the past two years, the Department of the Treasury, including the Office of Enforcement, has conducted a series of evaluations of organizational structures. As a result, the U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms, and Financial Crimes Enforcement Network recently implemented headquarters and field reorganizations.

Question: The Director of ATF is a professional career position, not confirmable by the Senate. Why is this the case and what do you believe would be in the effect if the Congress decided to make this position political and subject to Senate confirmation?

Answer: Executive Order 221 established the ATF Director's position as a career appointment under the supervision of the Assistant Secretary (Enforcement) in 1972. This arrangement is consistent throughout Treasury law enforcement--heads of the U.S. Secret Service, the Criminal Investigation Division of the Internal Revenue Service, Office of Investigations in the U.S. Customs Service, the Federal Law Enforcement Training Center, and the Financial Crimes Enforcement Network--all are career officials.

It is important to note that the criminal laws that ATF enforces and the commodities that ATF regulates involve issues that are extremely controversial. Because of these sensitivities, ATF must remain apolitical and perform all of its duties without political prejudice and according to the governing laws.

Nonetheless, under the present system, the Director reports directly to the Assistant Secretary (Enforcement) and Under Secretary (Enforcement), both of whom are subject to Senate confirmation and report to the Secretary of the Treasury.

Violent Crime Reduction Trust Fund

$28.637 million and 62 FTEs have been requested from the Violent Crime Trust Fund for the following initiatives:

$7.2 million for the Great program grants;
$3.0 million and 16 FTEs for G.R.E.A.T.;
$4.313 million and 16 FTEs for a firearms trafficking initiative on disarming the criminal;
$3.662 million and 9 FTE for new CEASEFIRE projects;
$.800 for Project LEAD (weapons tracing);
$4.738 million and 19 FTEs for upgrades at the National Tracing Center;
$1 million for training; and
$3.914 million and 2 FTE for continued development of a new financial information system.

The Violent Crime Trust Fund was established to support and expand law enforcement operational activities. It was not meant to be a funding source to provide cover the costs of base law enforcement activities or supplant activities which should be supported through the salaries and expenses appropriation.

Looking at the 1997 request, many of these initiatives should really be funded in the base budgets--they are not violent crime initiatives.

Question: Can you prioritize the initiatives to be funded from the Violent Crime Trust Fund for fiscal year 1997?

Answer: The Bureau finds is difficult to prioritize the Violent Crime Trust fund initiatives for FY 1997. All of the initiatives are interrelated with the Bureau's Disarming the Criminal strategy. Firearms trafficking is related to the Tracing Center and tracing firearms, as is CEASEFIRE and Project LEAD. Training underpins all the other "Disarming the Criminal" activities as does the maintenance of the ICS/FMIS (revenue collection and financial reporting). However, in order to

respond to the question the Bureau has prioritized the Violent Crime Trust fund initiatives as follows:

1. Integrated Violence Impact Strategy:

a. Firearms Trafficking (Disarming the Criminal):
b. CEASEFIRE
c. Project LEAD
d. National Tracing Center
e. Training

If this strategy is not funded, the Bureau will not be able to effectively target those individuals and organizations that are illegally channeling firearms to the criminal element. Additionally, if any elements of the strategy are not funded it would have the same effect as removing one leg of a chair; the overall strategy will not be as strong or effective. According to the Bureau of Justice Statistics Sourcebook, a total of 578,574 firearms-related violent crimes were reported in 1993 and 68 percent of the 23,750 homicides in 1993 were committed with a firearm. Nationally, ATF would not be able to effectively utilize its jurisdiction to assist State, local and other Federal agencies to address the illegal trafficking of firearms to those violent criminals who are responsible for perpetuating the increasing numbers of firearms-related violence.

Productivity savings would be realized to the Government in the form of an increase in the number of illegal firearms traffickers removed from society with an end result being a decrease in the number of firearms available to violent criminals and a decrease in the number of firearms related crimes. This comprehensive national firearms trafficking strategy will aggressively target those individuals who illegally traffick in firearms to criminals.

2. G.R.E.A.T. Program: Gang Resistance Education And Training Program (G.R.E.A.T.) is a structured, school-based program implemented in areas where gang activity either exists or is emerging. The curriculum is taught to the seventh and eighth grade levels by certified uniformed police officers and ATF special agents. An integral part of the G.R.E.A.T. Program is an optional follow-up summer camp, with classroom instruction and extracurricular activities that reinforce the 9 week school program through social and self-esteem building opportunities. A five-year study has been underway, by the University of Nebraska, for the past two years. Preliminary analyses indicate that students completing G.R.E.A.T., reported:

> Lower levels of :
- delinquency
- impulsive behavior
- risk taking behavior
- approval of fighting

> Higher levels of:
- self-esteem
- parental monitoring
- commitment to positive peers
- anti-gang attitudes
- perceived educational opportunities
- positive school environment

All of the above positive results would cease should this initiative not receive continued funding.

3. Continuation of Federal Management Information System/Integrated Collection System (FMIS/ICS).

Question: Why are you proposing to fund activities like training and a new financial information system from the Trust Fund--don't these activities really belong under your salaries and expenses account?

Answer: The Bureau Information Architecture is being requested in the Bureau's salaries and expense account. The continuation of the ICS/FMIS system, is also an integral part of the Bureau's mission which is to reduce violent crime as well as protect the revenue. Therefore, this request has been placed in the Violent Crime Trust Fund request.

The training request does include firearms trafficking training for ATF agents as well as State and local enforcement personnel and State prosecutors. This is in line with the intent of the Violent Crime Trust Fund intended use of funds i.e., reducing violent crime.

Question: What law enforcement function is served by this proposed new financial information system?

Answer: During the past year, ATF has completed a major, Bureau-wide restructuring, which has aligned the Bureau around a recently completed strategic plan. This plan, as one of its principal elements, consolidated the offices of Criminal and Regulatory Enforcement into a single functional entity. At the same time, three diverse ADP organizations within the Bureau were merged into a single support entity and restructured to directly support the strategic plan of the Bureau. The consolidation of function, combined with the outmoded and fractionated information systems currently in place within the Bureau, requires that ATF re-engineer and rebuild its information systems infrastructure. During FY 1997 a pilot is planned to be implemented.

Question: What are the proposed long-term costs of this project?

Answer: [See Director's General Statement , pages 19 through 22, which is part of the record]

Question: What will be the effect if it is not funded?

Answer: [See Director's General Statement , pages 19 through 22, which is part of the record]

Question: With respect to the Firearms Trafficking initiative ($4.313 million and 16 FTEs), which will permit ATF to establish firearms trafficking coordinators at

each of its Criminal Enforcement Field Divisions, why is this needed and how does this differ from the Achilles projects currently in effect throughout the country?

Answer: Armed violence is one of this Nation's primary concerns. Historically ATF has impacted on armed violent crime by investigating, prosecuting and incarcerating for long periods of time those armed violent criminals and armed drug traffickers directly involved with committing the violent crime. Through ATFs Achilles Program and our efforts in Project Uptown, OCDETF, and H.I.D.T.A. we have been very successful at locking up armed violent criminals. Now, with newly developed technology and legislation aimed at illegal firearms traffickers, ATF is expanding it's efforts to combat armed violence by targeting those individuals who illegally traffick in firearms to the criminal element. ATF has the investigative expertise, unique statutory jurisdiction, and one-of-a-kind information (National Tracing Center, Project LEAD, Firearms Licensing, National Firearms Registration and Transfer Record) to effectively address the illegal trafficking of firearms to the criminal element. These new efforts complement ATF's long standing efforts to reduce armed violent crime through direct investigation and prosection of armed violent criminals. Striking a balance between the two approaches will best serve both strategies. As information from the firearms recovered during the arrests of armed violent criminals is entered into Project LEAD (the illegal firearms trafficking information system), the illegal firearms trafficking strategy can become more effective. Conversely, as the illegal firearms trafficking strategy becomes more effective, the availability of secondary market firearms to the violent criminal will be reduced. In addition to complementing existing Bureau strategies, ATF has increased it's efforts against illegal firearms trafficking as these investigations often exceed the jurisdictional boundaries', expertise and resources of other State, local, and Federal agencies.

To assist in targeting illegal firearms traffickers, ATF developed Project LEAD, an automated illegal firearms trafficking information system which analyzes unique information gathered by ATF's National Tracing Center. This includes information gathered during the course of firearms traces conducted on crime-related firearms, multiple purchase information, and criminal associate information. When crime-related firearms are traced, information concerning when the firearm entered the hands of a criminal and who provided that firearm to a criminal can be gathered. Project LEAD can identify recurring patterns, thus, identifying potential illegal firearms traffickers. This allows ATF to focus our limited resources where we can have the most impact on illegal firearms trafficking and armed violent crime. Focused enforcement and effective use of limited resources are key to this strategy.

Eliminating the flow of firearms to the violent criminal will reduce the overall violent crime rate as well as the armed violent crime rate. Firearms make it very easy to commit violent crime. When firearms access is removed from the criminal element, violent crime in general will be reduced. ATF's illegal firearms trafficking strategy will reduce armed violent crime by investigating and prosecuting those individuals who are illegally supplying firearms to the violent criminals responsible for perpetuating the increasing numbers of firearms-related crimes.

To effectively deploy the firearms trafficking strategy, both firearms

trafficking task forces and firearms trafficking coordinators are needed. Illegal firearms trafficking investigations are often initiated through intelligence information. This information must be effectively coordinated in order to avoid duplication of effort. In addition, illegal firearms trafficking investigations often require the work of several agents to conduct surveillance and process the various information and evidence. To ensure the proper resources and attention are given to our illegal firearms trafficking efforts we need special task forces dedicated to investigating illegal firearms trafficking. In FY 1997 we are requesting two task forces, one in Miami, Florida (an illegal firearms trafficking source State) and one in New York City, New York (an illegal firearms trafficking market State) which are cities at either end of the largest illegal firearms trafficking corridor in the country. These groups will serve as our "proof of concept" to show the impact that ATF can have on armed violent crime by interrupting the flow of firearms to the criminal element.

Question: For the record, can you provide the proposed allocation of funds for the specific activities under this initiative?

Answer: ATF is requesting $4,313,000 for its Firearms Trafficking initiative, of which $2.6 million will be used to hire 16 additional FTE. The remainder will be used to purchase equipment, furniture and supplies as well as fund a study. ATF will utilize its exclusive information to work with outside sources, i.e., educational institutions and consultation specialists, to develop a study that will focus on the history, movement, and characteristics of recovered firearms, the compliance practices of FFLs, and the effects of Federal and certain State legislation relating to firearms violence. From this study, ATF will obtain useful data and intelligence information pertaining to the illegal firearms trafficking problem. Also, a two week firearms trafficking school for ATF personnel will be developed and the Firearms Tracing System will be redesigned to enhance query capabilities and improve connectivity with the National Tracing Center.

Question: You have requested an increase of $1 million for a training course on firearms trafficking techniques for State and local law enforcement and prosecutors. Why is this needed? Why can't this training be provided through FLETC facilities and not by ATF?

Answer: The funding requested ($1 million) will be utilized to support a number of efforts, including some which are designed to augment the Bureau's overall firearms trafficking strategy. These particular efforts include the development of roll call training exclusively for ATF agents and inspectors on firearms trafficking investigations as well as the delivery of the firearms trafficking training to State and local law enforcement personnel. In addition to the firearms trafficking element, the funding will also be utilized to develop other specialized technical training for agents and inspectors and to initiate enhanced leadership development training for all ATF personnel.

Given the Bureau's history of cooperative efforts with State and local law enforcement agencies, and our recognition of the benefit their involvement can provide, we have determined that our overall firearms trafficking strategy would be enhanced by ensuring that State and local officials have been provided appropriate

training on this particular type of criminal activity. Further, since ATF has sole jurisdiction over the enforcement of Federal firearms laws, we are the only agency that has the expertise and experience to develop and deliver training on firearms trafficking. Cost comparison analysis has demonstrated that it is more economical to deliver the training at field sites (where only the instructors incur travel costs) than at the Federal Law Enforcement Training Center (where instructors and participants would have to travel).

Question: What is the total amount budgeted for training? Does any of this training currently support State and local law enforcement?

Answer: The FY 1997 President's budget contains $6.953 million for training activities within the Salaries and Expenses appropriation. A portion of this funding does support training for State and local law enforcement personnel, generally in conjunction with training provided to ATF personnel. For example, the Bureau conducts a number of arson and explosives training exercises for agents and inspectors, and State and local law enforcement officers are occasionally invited to attend the training as well.

Additionally, ATF personnel conduct several training courses exclusively for State and local law enforcement personnel at the Federal Law Enforcement Training Center (FLETC). In general, FLETC finances these efforts, although we are not reimbursed for FTE or overhead costs associated with this training.

GREAT

$7.2 million has been requested to continue ATF grants to communities for the GREAT program. This is the same amount as funded in '96. In addition, $3.0 million and 6 FTEs have been requested for ATF to oversee the program.

Question: The $7.2 million requested for G.R.E.A.T. grants is level funding -- no new projects can be funded at this level. Evaluations from this program have shown it to be very successful in the G.R.E.A.T. communities at keeping youth from joining gangs. If this is the case, why aren't you proposing increased funding to expand this program?

Answer: The initial evaluation results only became available in February 1996. Up until that time we felt we should not request additional funds until we had proof that the program is effective. With this preliminary finding, plus the continued growth of the program, we now believe that Congress may want to support the growth of G.R.E.A.T., or at least defer reductions in the program's funding and staffing levels.

At the annual National Policy Board meeting for G.R.E.A.T., the Board agreed to expand the number of course sessions for training State, local and Federal law enforcement officers who will teach G.R.E.A.T. in local schools.

Question: How many projects are funded by the Federal program versus those funded by individual communities?

Answer: Congressional appropriations language mandates that the Federal Law Enforcement Training Center (FLETC) and ATF provide at no cost G.R.E.A.T. training for qualified law enforcement applicants. This funding pays for students lodging and per diem, fees for contractual instructors, gang experts and educators. In addition, ATF provides funding to the Phoenix Police Department to support their G.R.E.A.T. instructors and administrative staff. A total of 657 law enforcement agencies have certified G.R.E.A.T. instructors. Except for the Federal funding for officer training, 613 support their local G.R.E.A.T. program without direct Federal funding.

Separate appropriations language provides direct support for 44 agencies. Through cooperative agreements, ATF provides funds to pay salaries, administrative costs, and indirect expenses associated with the delivery of the G.R.E.A.T. program to local community school children. This is the $7.2 million provided in FY 1996.

Question: The DARE program started out much like G.R.E.A.T., but it established a non-profit Foundation to raise money to support and expand the program. Why is this not being done or promoted for the G.R.E.A.T. program?

Answer: The G.R.E.A.T. program is a national violence prevention effort administered by three agencies -- ATF, FLETC, and the Phoenix Police Department. Current regulations prohibit ATF from soliciting or receiving financial support from private sources. FLETC can accept private funds to support training programs but would not be able to provide direct support to local G.R.E.A.T. programs. In addition, Senate Report 103-106 states in part that "...Federal funds provided will support the full cost for Federal State and local participation in these task forces." The Phoenix Police Department is exploring the feasibility of establishing a G.R.E.A.T. non-profit corporation and transferring copyright and trademark authority. This could exclude the Federal government from providing direction and oversight of G.R.E.A.T.

Question: Why does ATF require $3 million and 16 FTEs to oversee the program? Is this sufficient to permit ATF to oversee this program?

Answer: Actually oversight of the program is only part of ATF's role. It also includes funding of instructors for the one and two week G.R.E.A.T. Officer Training (GOT) sessions, issuing and tracking student certificates and graduations from the program, meeting with and briefing police departments and school systems around the country concerning G.R.E.A.T., providing ATF agents as G.R.E.A.T. instructors, screening and registering police officers for training, and publicizing G.R.E.A.T. The oversight involves providing assistance through on-site visits throughout the country to help departments improve their programs. The cuts in this program ($500K and 8 FTEs) mean that there will have to be reduced levels of the activities listed above. Further, without an increase, expanding the program will be more difficult.

Question: What is the justification for the reduction of $500K of G.R.E.A.T. administration attributed to a non-recurring cost? Is this realistic?

Answer: Due to competing priorities, some administrative cuts, though undesirable, were necessary.

Question: How many police participants have been trained through the G.R.E.A.T. instructor training program?

Answer: To date more than 1,700 law enforcement officers have received G.R.E.A.T. officer training (GOT) and are certified to teach the G.R.E.A.T. program.

Question: Where is the training being conducted? Is it sufficient to meet the demands for this training?

Answer: In FY 1996, training thus far has been conducted in Phoenix and in the vicinity of the Federal Law Enforcement Training Center in Georgia. By the end of FY 1996, we hope to begin offering training in other parts of the country, targeting the Northwest, Midwest, and Northeast. By having additional sites, the travel costs borne by the participating communities will be reduced.

Currently our waiting list for training ranges between 150 and 200 police officers. Resources have not permitted increasing the number of officer training sessions to keep up with the demand. We expect that once the G.R.E.A.T. evaluation results are issued, the demand and backlog will increase.

Question: How much was allocated to the Nebraska G.R.E.A.T. project in fiscal year 1996? How much is budgeted in fiscal year 1997?

Answer: In FY 1996 $425,000 was allocated to the Nebraska G.R.E.A.T. project. The same amount is budgeted for FY 1997.

New Laboratory

ATF is requesting $62 million in a new account for relocating its National Lab from Rockville and co-locating it with a new Fire Research Center.

The justification states that the existing lab is too small and its present site violates a number of OSHA health and safety standards. The alternative of a leased facility, according to GSA, would cost $144 million over 20 years.

Question: Why does ATF need to relocate its National Laboratory facilities, and why are you contemplating a move to a university campus?

Answer: Research into the fire phenomenon and its effect on fire pattern formation has moved into the forefront of the fire investigation discipline. Fire science and computer technology have raised many questions for fire investigators and is literally changing the way fire scene investigations are conducted. University faculty members and students conducting this research have expressed an interest in partnering with ATF in an effort to develop practical problems that will improve investigations and enhance the engineering discipline of fire reconstruction.

It is also anticipated that the academic environment will enhance our training and education programs that are delivered to other Federal, State and local enforcement agencies.

ATF's National Laboratory Center is currently operating in a 30-year old building and the lease has expired. The current facility does not meet modern laboratory standards. The building's heating, cooling and ventilation systems need to be replaced. The building also has a recurrent problem with massive termite infestations which completely halts forensic processes. The electrical service and plumbing for the building can no longer support the demands of new technology in laboratory equipment. Additionally, the building does not have adequate facilities for the storage of laboratory chemicals, gases, and explosives and is not in compliance with OSHA and EPA regulations. According to a GSA Building Evaluation Report 89% of the building is in substandard condition. Renovation and lease renewal are not cost effective for the Government.

Severe space shortages along with nearly 90% of the current facility failing EP and OSHA health and safety standards, require ATF to relocate its current laboratory. The following are examples of these violations:

- There is no safe storage area for the explosive, arson, and pyrotechnic materials. These materials are needed for reference in casework examinations.

- There is no safe storage area for chemicals used routinely in lab analyses.The storage of these chemicals is in fume-hoods that are only marginally functional and bulk chemicals cannot be adequately stored.

- The current facility does not have fire-walls and does not meet current construction standards for a laboratory. A fire anywhere in the building would sweep throughout the entire facility and could not be locally contained.

- Termites infest the ground below the laboratory and periodically swarm into the building and get into lab instruments, halting work for extended periods of time.

- The current exhaust system is inadequate. Particulate lead from weapon test firing poses an occupational health hazard. The firing range is too small for the number of people who use it and the ventilation system does not adequately remove lead-particulate matter generated from the firings. The ballistics tank is located in an area where other examinations are simultaneously performed.

ATF is contemplating entering into a partnership agreement with a university in order to accomplish the following:

a. Opportunities for cooperative research between ATF and a university in areas of common interest.

b. Sharing of sophisticated technical equipment that would be otherwise unavailable to the individual parties.

c. Ready access to technical (chemistry, physics, engineering, computer science) expertise and technical literature maintained by a university.

d. An opportunity to create coop programs. ATF would get high quality, low cost student help and college students get a unique training opportunity while earning college credit.

e. Employee development opportunities. ATF employees would have the opportunity to attend/ or teach at the university.

Question: Are you attempting to negotiate a cost-sharing arrangement with the university?

Answer: ATF has not begun to negotiate any cost-sharing agreements, partnerships, or memorandum of understanding with any university. It is our intention to explore these opportunities at such time funding is approved.

Question: Why can't this lab consolidation and relocation be achieved through a lease arrangement?

Answer: The Lab relocation can be accomplished through a lease arrangement. However, this method does not afford any savings to the Government. If ATF were to pursue a conventional lease through General Services Administration, the lease cost would be between $209 million and $229.5 million for a lease of twenty years (based on GSA estimates). A one-time, direct appropriation would avoid a long-term increase in ATF's annual appropriation and the potential negative impact this could have on the National Debt. Acquisition of land and construction of a facility would be substantially more cost effective to the Government and taxpayer.

Question: What will be the effect if the $62 million is denied in FY 1997-will you stay at your current location?

Answer: If total funding is not received, it would severely damage the Bureau's ability to carry out its mission. Failure to accomplish the relocation will result in severely handicapping services in the beverage alcohol, arson, explosives, firearms and toolmark examination, handwriting and fingerprint analysis section of the National Laboratory Center.

The current lease expires on June 30, 1996. GSA is in the process of negotiating a 3 year extension on the current lease. However, the lessor has advised GSA that they are interested in signing a long term lease with a tenant. The lessor has been advised that the building is no longer capable of meeting the requirements for ATF's laboratories. GSA may be able to get the lessor to agree to a short term extension of the current lease.

Question: $62 million is a lot of money, why isn't this being requested through GSA?

Answer: GSA has been in partnership with ATF over the past several years in trying to develop specifications and requirements for a new National Laboratory Center. Recognizing budgetary constraints, ATF was requested to examine potential alternatives which could offer cost savings to the government. ATF's analysis showed that the greatest benefit to the government can be derived by allowing ATF to operate and maintain its own facility in lieu of a traditional GSA lease.

The requested funds could be appropriated to GSA in lieu of ATF. However, the key issues in deriving savings for the Government are:

a. Avoiding a long term lease.
b. Delegation to operate and maintain the facilities in order to avoid rent payments to GSA.

Our laboratory space requirements are unique. GSA has indicated that since this will be a special purpose facility, they are in agreement that it is in the best interest of the Government to delegate authority to ATF. The authority to construct our own facility will provide ATF the opportunity to develop specifications which completely meet our requirements. GSA recognizes that these facilities have complex space and technical requirements and that the subject matter experts lie within ATF. In addition, this will allow ATF to have direct oversight over the maintenance and operation of the facility.

Thefts From Gun Dealers

Many firearms used in the commission of violent crimes are stolen from Gun Shops. ATF confirms this through the tracing of firearms used in various crimes.

Question: What percentage of violent crimes are committed using firearms or explosives stolen from gun dealers or interstate shipments?

Answer: Since this part of the data base is relatively new and contains minimal data, ATF is unable at this time to provide any statistics on this topic but will be able to do so in the future. ATF has been tracking thefts of firearms from interstate shipments since the late 1970s. Until recently reporting firearms thefts or losses to ATF was voluntary. In addition, the analysis of these types of thefts was limited to identifying numbers and types of firearms stolen, where the firearms were stolen from, and who the firearms were stolen from. In 1994, Congress enacted a law requiring Federal firearms licensees (FFLs) to report thefts/losses from their inventory to ATF. In order to better serve law enforcement and the FFL community in analyzing data on stolen firearms, ATF implemented a Stolen Firearms Data Base. The data base was introduced in stages in order to immediately capture theft reports. One aspect of the data base implemented in February 1996, is the recovery location/possessor information feature. This will allow ATF to provide statistics on the number of firearms stolen from FFLs and interstate shipments that are subsequently recovered in crimes (however, the data base cannot specify violent crime in this analysis).

Question: What specific support does ATF provide to law enforcement investigations utilizing its tools such as the National Tracing Center to these firearms and/or prevent such thefts?

Answer: Please refer to the Bureau's FY 1997 budget request, which asks for additional resources to address this very problem.

When ATF is notified of a theft/loss of firearms from either an interstate shipment or from the inventory of an FFL, the information is entered into the Stolen Firearms Data Base. Firearms identified as stolen are also entered into the National Crime Information Center (NCIC). During an investigation, if a law enforcement officer were to recover a firearm, the stolen status of the firearm would be identified by either querying NCIC, or tracing the firearm through the National Tracing Center (NTC). The NTC would immediately determine the firearm was stolen due to serial number information being cross checked between theft/loss reports and trace requests. Firearms reported as lost or missing cannot be entered into NCIC but are entered at the NTC as such and therefore, law enforcement can only identify these categories of firearms through the NTC. After identifying a firearm as lost or stolen, ATF will assign a special agent to contact the requesting agency to provide them with the theft/loss report and whatever assistance they need.

In order to prevent thefts of firearms from FFLs, ATF added a unique feature to the Stolen Firearms Data Base. The data base can analyze modus operandi information on reported incidents in an effort to link theft cases and identify patterns. This information is provided to the law enforcement community upon request and is also analyzed to generate potential theft leads to the field.

Question: What steps can gun dealers take to reduce the occurrence of thefts?

Answer: Drawing upon ATF's expertise in firearms theft investigations, statistics retrieved from the Stolen Firearms Data Base such as modus operandi information, and cooperative efforts with the firearms industry and the National Burglar and Fire Alarm association, ATF is in the process of publishing and distributing to Federal firearms licensees (FFL) a pamphlet on how they can improve their security procedures in order to prevent firearms thefts. Excerpts of the pamphlet will be published in the upcoming FFL newsletter distributed by ATF to all FFLs.

Many of the tips provided in the pamphlet are common sense approaches: keep display cases locked at all times, show only one firearm at a time to customers, do not leave a customer unattended while handling a firearm, do not meet with customers after business hours, strictly control firearms security at gun shows, institute an employee screening process, and properly utilize any security measures that are already in place.

The best investment to make is the addition of a burglar alarm with central monitoring. Burglar bars on windows and barriers, such as concrete filled posts placed around the business, will also help prevent "smash and grab" type thefts which have been steadily increasing in frequency. Securing firearms inventory at the end of

the day, either by locking them via hardened cable or placing in a vault, will also be beneficial as they hinder the criminals ability to quickly remove large quantities of firearms from the store.

WACO

Question: What steps have been taken since Waco and Ruby Ridge to address deficiencies in intelligence, training, communication, chain-of-command, undercover control, and issues relating to the media as cited in various reports on ATF involvement in these cases?

Answer: Please refer to the "Summary of Issues and Corrective Actions Taken by the Bureau of Alcohol, Tobacco and Firearms as a Result of the Waco, Texas Raid" (The document is included as part of the record).

Question: What assurance can you give this committee that ATF has learned from its mistakes and that any large scale law enforcement actions taken in the future will not result in a repeat of a Waco or Ruby Ridge?

Answer: The publication "Summary of Issues and Corrective Action Taken by the Bureau of Alcohol, Tobacco and Firearms as a Result of the Waco, Texas Raid" identifies deficiencies and corrective actions which have been implemented. This publication has been disseminated to all field division and per memorandum dated 2/8/96, this publication is mandatory reading for all SRT members. These corrective actions are fundamental systematic changes. Therefore, we are confident that the changes will sustain our new policies.

The above stated publication addresses the Waco incident, however, the listed corrective actions can also be applied to Ruby Ridge.

Armed Career Criminal Program

Question: In fiscal year 1997, how many FTEs and dollars are budgeted for the Armed Career Criminal Program? How does this compare to fiscal year 1996?

Answer: Approximately 45 percent of the Bureau's resources are devoted to the Achilles program. This percentage includes Violent Crime Reduction Trust Fund resources. Without the Violent Crime Reduction Trust Fund, the Bureau uses approximately 34 percent of it's direct resources. ATF estimates that these percentages will remain constant during FY 1997, barring no changes in ATF's budget request.

Question: For the record, can you site accomplishments from this program in fiscal year 1995 and thus far in fiscal year 1996?

Answer: The Achilles program centers on the investigation and incarceration of armed drug traffickers and armed career criminals. Armed career criminal investigations have a high priority at ATF as these individuals are responsible for a disproportionate amount of armed criminal activity.

During FY 1995, 877 armed career criminals were recommended for prosecution and 202 armed career criminals were found guilty of violating the armed career criminal statute (18 U.S.C. Section 924(e)) resulting in a cumulative of 3,647 years of incarceration.

ATF measures the beneficial impact of this program through the Protecting America study which conducted research and relied on statistical analysis from the National Institute of Justice. This study showed that armed career criminals committed an average of 160 crimes per year at an average cost to the intended victims and the American public of $2,700 per crime. With the average jail sentence received by an armed career criminal being 18 years, this equates to 2,880 crimes at a cost of $7.8 million to the American public which ATF prevents by incarcerating just one armed career criminal.

In FY 1995, 202 armed career criminals were sentenced to periods of incarceration averaging 18 years resulting in the prevention of approximately 584,000 future crimes at a cost of $1.4 billion to the intended victims and the American public.

From October 1, 1995 through March 31, 1996 of FY 1996, 425 armed career criminals have been recommended for prosecution, and 78 armed career criminals were found guilty of violating the armed career criminal statute (18 U.S.C. Section 924(e)) resulting in a cumulative of 1506 years of incarceration. In addition, the removal from society of those 78 career criminals has resulted in the prevention of over 240,000 future crimes at a cost of over $500 million to the intended victims and the American public.

Since the programs inception in FY 1988, 6,859 armed career criminals have been recommended for prosecution and 1842 of those defendants have been convicted and sentenced as armed career criminals, receiving sentences to periods of incarceration averaging 18 years and resulting in the prevention of approximately 5.2 million crimes at a cost of over $12 billion to the intended victims and the American public.

Ceasefire vs. Drugfire

The Committee provided funding of $3.1 million both in fiscal year 1996 and 1997 for ATF Integrated Ballistic Identification System (IBIS). This system permits ATF firearms tracing personnel to identify both bullets and cartridge casings from digitized images (also known as CEASEFIRE).

The FBI funds a similar program called DRUGFIRE and the Drug Czar's Office is attempting to develop a standard imaging capability for both systems so that electronic images may be shared and analyzed by both systems.

$3.6 million has been requested in FY 1997 for additional sites for CEASEFIRE/IBIS.

Question: Why is the Federal Government funding 2 distinct, but similar,

ballistics identification technologies, IBIS and Drugfire?

Answer: The Federal government is funding these ballistics identification technologies because they both hold the promise of enabling law enforcement to link crimes that are apparently unrelated. The competition between the two systems has led to numerous improvements in both.

Question: What is the difference between the two?

Answer: The Integrated Ballistic Identification System (IBIS), technology is an algorithm driven, single platform, computerized identification system. Drugfire is a visually driven image processor which accepts cartridge evidence for storage within its database.

Question: What is the difference in cost?

Answer: ATF has contracted to provide ballistics technology to State and local laboratories across the nation. By the end of FY 1996, ATF hopes to have expended 6.7 million dollars placing the ballistics system in 15 laboratories. ATF has a standing contract for the purchase of ballistics systems--the price in FY 1997 will be $333,000 per hub and $231,250 per networked data acquisition station.

ATF cannot determine the amount of funds that the FBI has expended on the Drugfire program.

Question: In your view, do you believe IBIS to be a superior system--if so, why?

Answer: ATF believes that the IBIS system is technically superior is several facets.

Question: What steps are being taken to ensure there is compatibility between the systems? When will this be completed?

Answer: ATF has entered into a memorandum of understanding (MOU), with the FBI to work cooperatively towards the interoperability of the two systems. The Office of Management and Budget oversees the progress of the interoperability study and is relying on the National Institute of Standards and Technology (NIST), to develop the standard. Once written, the interoperability standard will be tested sometime during the summer of 1996 in California. NIST has defined the term interoperability as the ability of both systems to capture and transfer of each others scanned firearm ballistic information.

The MOU additionally provides for the joint development of an ATF/FBI firearms reference library on CD-ROM, which would be made available to State and local law enforcement groups; the sharing of firearms recovery and trace data; and the availability of the Lab-Net to those State and local laboratories using the Integrated Ballistic Identification System (IBIS), for ballistics imaging.

Reportedly, NIST has completed the initial phase of its study and is in the process of writing a standard for the interoperability of the two systems regarding cartridge case acquisition and transfer only.

Explosives Canine Standards

ATF has a canine explosives program whereby it uses a scientifically-approved training program to train dogs to detect bombs.

Many other Federal agencies utilize bomb dogs, i.e., Secret Service Uniformed Division, and many police departments, like the Capitol Hill Police, etc.

ATF uses the Customs Canine training facility at Front Royal, Virginia to train in its bomb sniffing method.

Question: Why is there such a proliferation of the use of canines for explosives, drugs or other contraband detection?

Answer: Because they work. The canines' exceptional olfactory abilities have been used to detect drugs, explosives, cadavers, missing persons, food, and other items of evidentiary value. They have olfactory capabilities far more sensitive and sophisticated than humans. As an example, humans have approximately one-half million receptor cells in their noses dedicated to smell. Most canines have approximately 100 million receptor cells in their noses for smell. Additionally, canines are relatively inexpensive compared to electronic instrumentation and are very mobile.

Explosives-detecting canines have been utilized since the early 1970's, and then basically by the military. The main reason it has been difficult for law enforcement agencies to utilize and maintain bomb dogs is because little scientific methodology has been used in training protocols or in the selection of explosive materials to train on. Also, no consideration has been given to the cross contamination between different types of explosives utilized during training. Access to pure, uncontaminated explosives on which to train the canine is another serious hinderance to these programs. It many cases, it was also not cost efficient for a police department to maintain the canine because the threat level was perceived as low.

With the recent increase in terrorist bombings in the United States (World Trade Center & Oklahoma City) and the increase of criminal bombing throughout the country, law enforcement agencies throughout the country have realized there is a true explosives threat in this country and need to address it. Because the canine is more reliable, much cheaper than machines, able to detect a wider range of explosives than machines, and are very mobile, they are the tool of choice for explosives detection.

Question: When did ATF get into the explosives canine business and why?

Answer: In 1990, the U.S. Department of State (DOS), Anti-Terrorism Assistance Program, requested that ATF evaluate their program which trained explosives-detecting canines for foreign countries. At that time, the DOS employed a

private contractor to facilitate the training. In our assessment, ATF uncovered several serious deficiencies, including: a complete lack of knowledge of the current explosives threat worldwide; no scientific testing, training or oversight; no systematic or comprehensive approach to the selection of explosives used for training; no controls against cross contamination of explosives; and complete lack of proficiency under blind testing procedures. As a result, the DOS requested ATF's assistance in finding a solution to the training problems.

When ATF started developing it's own canine explosives training program to address the DOS needs, several other canine explosives training programs were evaluated. What we found were similar deficiencies in other programs as well.

Applying valuable knowledge gained from the ATF pioneered Canine Accelerant Detection Program, the ATF National Laboratory classified explosives into five common chemical families of odors. Scientific protocols were developed to train explosives detecting canines on these five basic families. The training on these common odors allows the dogs to detect over 19,000 explosives formulations. For example, rather than training the canine on an explosive of specific composition such as C-4, Semtex, U.S. Military dynamite, or British PE-4, the canine is trained to alert on RDX and will alert on any formulation containing it. These canines are trained to detect the widest possible range of quantities of explosive from the most minute to thousands of pounds.

ATF also developed for their canine explosives training program, a set of scientific protocols to test and evaluate the performance of the canine. In addition, ATF scientifically developed training protocols designed to eliminate cross contamination of explosives odors.

Question: Who pays for the costs of training provided by ATF?

Answer: Funding for training explosives-detecting canine for foreign countries is provided by the U.S. Department of State, Anti-Terrorism Assistance Program. ATF bears the costs for personnel and other technical support. ATF is not specifically funded for any explosives detection canine training. At this time, ATF can not train explosives detecting canines for law enforcement agencies in the United States.

Question: Is there any standard for the training of dogs for bomb detection? If so, why not?

Answer: There is no standardized testing for bomb dogs throughout the United States or the world. However, ATF, realizing the importance, is leading the way to develop standardized testing protocols through the International Association of Chiefs of Police.

Question: If your protocol is developed and certified to be the most effective., how can ATF and or Treasury enforce the use of this method?

Answer: In all the foreign countries in which ATF has trained and placed

bomb dogs, each and every one has given us feedback that these are the best detection dogs they have ever used. This includes countries which have had extensive previous experience with detection dogs such as Israel, Greece, Cyprus and Egypt.

The most effective means to disseminate the use of ATF's scientifically developed training methodologies and protocols is to review all canine explosives training programs, including ATF's. It is suggested that the Treasury Department take the lead in establishing an interagency working group to first gather the fragmented and uncoordinated independent efforts now underway throughout the various Federal bomb detection canine programs. This working group should be tasked with decisions on the allocation of research efforts in this area and the testing and evaluation of the various training methods in use today. They should establish testing and performance standards to be applied nationwide and combine their knowledge and resources to create the best canine explosives detection capability in the world.

Kids And Guns/Juvenile Violence

Youth violence has been on the rise as overall violent crime has declined in this country.

According to the National Center for Health Statistics, more teenagers die in this country from gunshot wounds than from all natural causes combined.

In 1993, 85 percent of the murder victims in the 15-19 year old age group were killed with a firearm. 17 percent of those arrested, were under the age 18.

Question: Aside from the G.R.E.A.T. program, what actions can be taken by ATF or other Federal law enforcement agencies to reduce the level of juvenile crime?

Answer: While many Federal law enforcement agencies have chosen to directly target juveniles for prosecution at the Federal level, ATF believes that to effectively reduce the levels of juvenile-related armed violent crime the illegal source of firearms for juveniles must be eliminated. ATF is the only Federal agency with the unique statutory jurisdiction, investigative expertise, and one-of-a-kind information to accomplish this task. To identify the illegal source of firearms for juveniles all firearms taken from juveniles by any State, local or Federal law enforcement agency need to be traced through ATF's National Tracing Center and research on the illegal juvenile firearms market must be done. Firearms trace information can provide the requesting agency with the firearm source information for that particular firearm but more importantly, the collective information from numerous juvenile-related firearms traces can be analyzed by Project LEAD to identify those illegal firearms traffickers who are supplying firearms to juveniles. If the illegal firearms traffickers providing firearms to juveniles can be identified and incarcerated then juveniles themselves will not have access to the firearms, thus not commit the armed violent crimes.

Question: What priority does your agency assign to this problem?

Answer: ATF places an extremely high priority on programs to address armed juvenile violence. The importance of our various programs and initiatives to address armed juvenile crime play an integral role in the Department of Justice' recently published national strategy to address juvenile crime entitled Combating Violence and Delinquency: The National Juvenile Justice Action Plan.

ATF's formal efforts to reduce armed juvenile crime began in 1993 with a firearms tracing program specifically designed to determine the source of firearms recovered on school property and from juveniles who use them to commit violent crimes. This initiative grew from an increase in juvenile-related violent crime, including juvenile gang activity and shootings on or near school property, and from the number of instances in which juveniles brought firearms to school or committed acts of violence at school.

State and local law enforcement agencies were informed of this initiative and encouraged to participate in our efforts to reduce the frequency of firearms violence involving juveniles, identify and stem the illegal flow of firearms to juveniles, and apprehend and prosecute adults who violate firearms laws by purchasing firearms for, or providing firearms to juveniles. The results of that trace initiative were helpful in identifying general sources of firearms for juveniles and the firearm preferences of juveniles. This initiative also led ATF to develop additional initiatives to identify illegal sources of firearms to juveniles which would build upon the successes of the first initiative.

Currently, ATF is preparing to deploy the Youth Crime Gun Interdiction Initiative (YCGII). The YCGII is a focused enhancement of the ATF illegal firearms trafficking strategy and continues our efforts toward creating a sound and safer America through innovation and partnerships. To accomplish this initiative, ATF has entered a partnership with the Department of Justice's (DOJ) Office of Community Oriented Policing Services (COPS) and the National Institute of Justice (NIJ). The initiative provides funding and equipment to investigate the illegal trafficking of firearms to juveniles in 16 cities. In addition to enforcement activities, the initiative will involve research that will provide an accurate picture of the illegal juvenile firearms market. This research will be valuable to the development of future law enforcement strategies aimed at reducing armed juvenile violence. The Treasury Departments Executive Office of Asset Forfeiture has provided funding for the initiative in FY 1996/1997.

Alcohol Program

Question: How much is ATF expending in fiscal year 1996 to enforce the provisions of the Federal Alcohol Administration Act? How much is budgeted in fiscal year 1996?

Answer: While the Bureau's financial system does not track the FAA specifically, ATF estimates expending approximately $17.328 million enforcing the regulations of the FAA program in FY 1996. ATF does not have money earmarked specifically for FAA programs in its FY 1996 budget. The budget breaks down to Regulatory Enforcement Alcohol program under which ATF enforces the FAA regulations.

Question: How many FTEs are assigned to this program in 97 as compared to 96?

Answer: ATF does not earmark FTEs specifically to enforce FAA regulations. In FY 1996 it expended 225.4 FTEs from its Alcohol program to enforce these regulations. It is expected that this level of FTEs will remain consistent in FY 1997.

Headquarters/Building Security

The fiscal year 1995 supplemental provided additional funding of $7 million for relocation of ATF headquarters; and $3 million to improve security in ATF field offices.

Question: Specifically, how was this funding used in fiscal year 1995? Is additional funding needed to make security modifications at ATF offices or headquarters?

Answer: Thus far, approximately $750,000 of the supplemental for Headquarters relocation has been used for space programming and technical support. Additional funding may be required upon Headquarters relocation, as identified security requirements have increased since original projections.

The supplemental funding for field security has been used primarily for ATF internal office security upgrades. Specific program expenditures identified are listed below:

PROGRAM AREA	EXPENDITURE
X-ray and other equipment.	$285,214
X-ray maintenance agreements.	$27,000
Security construction.	$888,328
Security travel/overtime.	$11,861
Internal parking control.	$79,200
External parking control.	$44,626
Security supplies (IDs, etc.).	$12,000
TOTAL EXPENDITURE FY 1996	**$1,348,229**

It is planned that the balance will be used during the remainder of FY 1996 and/or FY 1997 for security program expenditures in the areas of space alterations, alarm maintenance/monitoring and additional security systems/services/equipment.

Question: Is there any additional funding included in your 1997 request for continued security enhancements at ATF offices or facilities? Is any additional funding required?

Answer: There is no additional funding for security enhancements included in our 1997 request. Additional funds may be required if GSA charges agencies for additional perimeter security at Federal/leased buildings. ATF has been advised that our share of a chargeback would be approximately $2 million per year. Also, recurring, additional annual costs associated with the maintenance/monitoring of installed systems and internal/external parking control will total approximately $400,000 during FY 1997.

Representation Funds

The Congress provided authority for ATF to expend up to $10,000 from appropriated funds in fiscal year 1996 for representational expenses.

Question: Can you provide specific detailed information on how these funds have been expended?

Answer: ATF's strategic plan stresses the forming of partnerships. During FY 1995, ATF sponsored 235 symposiums with alcohol, firearms and explosives industry members. The symposiums provide a forum for dialogue and strengthen ATF's ability to define key issues and solutions for improving customer service and reducing the regulatory burden on industry.

A sampling of those industry groups ATF has formed partnerships with and conducted symposiums are the following:

Institute of Markers of Explosives
American Pyrotechnic Association
Fertilizer Institute
Gun Show Promoters
National Association of Auctioneers
Alcoholic Beverage Industry

ATF wishes to continue these partnerships and symposiums during FY 1996 and
FY 1997.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

United States Secret Service

Training Consolidation

Question: Mr. Director, in fiscal year 1995, Congress provided funding for the construction of an administration building at the James J. Rowley Training Center. This building is part of the Secret Service Master Plan for the training center. What is the status of this building?

Answer: The relevant House committee has recently reviewed and approved the prospectus for this construction project.

Question: As part of this same master plan, you have plans to build a classroom building. This building is to replace current leased space in downtown Washington, D.C. that must be vacated soon. What is the status of this new classroom building? Have you requested funding for this building?

Answer: The Service has attempted to budget for the funding needed for this project but so far it has not been made a part of the annual submission to the Congress.

Question: When must the leased space in downtown Washington, D.C. be vacated? What are the annual lease costs of this current location? If an interim location is required, what do you estimate the lease cost to be? How long do you estimate it will take to recover the construction costs of the new classroom building through lease cost savings?

Answer: Current plans call for vacating the downtown Washington, D.C. location in 1999.

The approximate annual costs for the office, classroom, other special and parking space at this building for training is estimated to be $1.3 million. The need for an interim location to replace this space would only exist if funding for the new building is not provided. If funds are not provided, the Service estimates the lease costs for interim space to be about the same or slightly higher annually. However, with an interim move, the Service would also have the additional costs associated with the move i.e., telecommunications, security, relocation, etc.

A very simple analysis comparing the existing lease costs with the cost of constructing the new building indicates that the recovery of the construction costs would be accomplished in under seven years.

SUBCOMMITTEE RECESS

Senator SHELBY. If there is no further business to come before the subcommittee, we will stand in recess until Wednesday, May 8, when we will hear from the Office of National Drug Control Policy and the Executive Office of the President.

The subcommittee is recessed.

[Whereupon, at 4 p.m., Wednesday, April 17, the subcommittee was recessed, to reconvene at 2:04 p.m., Wednesday, May 8.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

WEDNESDAY, MAY 8, 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:04 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby and Kerrey.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF MARGARET MILNER RICHARDSON, COMMISSIONER

ACCOMPANIED BY:

MIKE DOLAN, DEPUTY COMMISSIONER
JIM DONELSON, CHIEF, TAXPAYER SERVICE/ACTING COMPLIANCE OFFICER
TONY MUSICK, CHIEF FINANCIAL OFFICER

OPENING REMARKS

Senator SHELBY. The subcommittee will come to order.

Today we continue our hearings on the President's fiscal year 1997 budget request. Our main witness today will be Margaret Richardson, the Commissioner of the Internal Revenue Service.

The IRS budget makes up almost 70 percent of the discretionary spending in the Treasury bill—70 percent. That, coupled with the fact that the Internal Revenue Service does not always show up on the citizens' most-liked Federal agency list, makes this hearing of the subcommittee's annual overview of operations that much more important, I believe.

The hearing will focus on the IRS budget request and its operations. I have indicated to the Commissioner and members of the subcommittee that we will have a separate hearing on tax systems modernization later this summer, after we have had time to review the reports we required of IRS on TSM. I am sure that there may be some questions about the fiscal year 1997 TSM funding request, but I would again request members of the subcommittee to refrain from delving too deeply into TSM issues today.

Commissioner, before we get started I want the record to show that I am concerned about this budget request. I have reviewed it,

and can say there are several questions which come to mind. But one of the most troubling aspects is a request to increase the IRS by 2,700 FTE's, full-time employees. Everyone is well aware of how some of us feel about downsizing the Federal Government. Most of the Government has taken those steps. Yet the IRS budget requests through the years continue to seek additional personnel.

The fiscal year 1997 request is no different, and quite frankly I thought that with the efforts the Service is supposedly placing on reorganization and more efficient and effective operations, that we would see the 1997 budget request for fewer, not more people.

Senator Kerrey is not with us yet, but I am sure that he will join us and have some opening remarks and some questions. But, Commissioner Richardson, again, I want to say welcome to you. As always, your entire written statement will be made part of the record, and I would ask that you introduce your colleagues for the record, for the benefit of the others here.

IRS TESTIMONY—COMMISSIONER RICHARDSON

Ms. RICHARDSON. Thank you, Mr. Chairman. I have with me today Michael Dolan, who is the Deputy Commissioner, he is on my immediate left; Jim Donelson, who is the Chief of Taxpayer Services and the Acting Chief Compliance Officer; and Tony Musick, who is our Chief Financial Officer.

We appreciate the opportunity to be able to discuss IRS's operations, including our 1996 filing season, as well as our fiscal year 1997 budget request. As you mentioned, Mr. Chairman, our tax systems modernization program hearing will be held a little bit later this spring, and the reports that were required by our 1996 appropriation will be delivered to you shortly by the Treasury Department. We look forward to having an opportunity to discuss that program with you later in the year, and to discuss it in more detail.

As you know from our conversations, we are in the financial services business, much like credit cards, banks, and insurance companies. We collect money, we process data, we maintain customer accounts, and we respond to our customers about their account questions.

But there are also many significant differences between our business and other financial services firms. We are also in the law enforcement business, and we are charged with administering and enforcing the tax laws of this country and combating financial crimes. Another significant difference is the sheer volume of our activity. Compared to other financial services businesses, we have many more customers—over 200 million—and we collect a lot more money—over $1 trillion every year.

Despite these differences, just like many other financial services businesses, what we are seeking to do is probably easier to describe than it is to accomplish. We want to provide our customers with better service at lower cost. We want to be able to use less paper, and to be able to take advantage of new technology. I have given a lot of thought in the last 3 years to how we can better do our job, and I think there is no question that we have to try to address problems with innovative solutions. And that requires a combination of updated technology, improved business processes, as well as a flexible organization. We view these as the essence of moderniza-

tion, and we are working very hard on all three fronts to modernize the Internal Revenue Service.

We are looking at our business processes and realigning our organization to be more efficient and flexible. During 1994 and 1995 we consolidated 70 phone and correspondence operations into 34, and we will continue to consolidate them to 23 customer service centers. Shortly we will be operating with three computing centers responsible for centralized mainframe computing instead of the 12 where we have them today. Last October 1 the number of regions we had was reduced from seven to four, and the staff in the four remaining regions was also reduced. We also began a consolidation from 63 district headquarters to 33. Those district consolidations are well ahead of schedule, and we should be completed well in advance of the first of October of this year.

We are in the midst of a major transition that began several years ago, but it will probably be continuing for several more years. And as I discuss our operations and our 1997 budget request, I would like to focus on what we are doing to try to make things easier for taxpayers, and how we are doing our job more efficiently and effectively.

TAXPAYER SERVICES

Since coming to the IRS almost 3 years ago I have tried to make it a top priority to improve our service to customers, the American taxpayers. For most taxpayers, this means making communicating with us and filing their returns as simple as possible. I do think we have made some progress on both those fronts, although we certainly have not achieved perfection. We know that taxpayers get frustrated when they call us and repeatedly get a busy signal. And in the past 3 years we have answered more calls than ever before. But we clearly have calls that are not getting answered.

We also have a growing number of taxpayers who visit or write us. In 1993, we heard from taxpayers by phone, visit, or letter 73 million times. Last year, it was 118 million times. We were able to serve more taxpayers by increasing our productivity, by expanding our hours of service, and by installing call routing equipment that allows us to better manage our telephone workload. This technology has allowed us, among other things, to route calls to available assisters who may be in the next county, the next State, or even across the country.

We are trying to answer taxpayer questions more quickly and efficiently, as well. In 1993 when I became Commissioner, not only were we not able to move calls around the country, but our assisters had access only to the taxpayer account information that was stored at a particular service center that serviced the office that they relied on. Technology has allowed us to move these calls around the country automatically, and to give information to our telephone assisters who have both the data and the expertise needed to answer specific questions.

Last year we began providing nationwide access to a certain kind of account information, and as a result we have been able to resolve account issues with a single telephone call about 75 percent of the time. We are bringing more account information on line, and our goal is ultimately to be able to answer 90 or 95 percent of the

answers in the first call. But again, despite our improvements, not every taxpayer call gets answered, and not all taxpayers who want to be served are being served. So we are trying to look for other ways to help our taxpayers.

Three years ago taxpayers who needed a publication or a form either had to call us to have the material mailed to them, or they had to drop by one of our offices, their local post office, or a library. But not today, at least for many taxpayers. Taxpayers who have access to a computer and a modem can now get their forms and publications and information anywhere in the world at any time from our web site through Fed World. So far this year we have had over 50 million people visit our home page on the internet, and on April 15 we logged more than 1.8 million hits.

We have forms and publications that are also available on CD ROM, and for the first time this year we made some tax forms available through an automated fax-on-demand service. One of our goals has also been to make it easier for taxpayers to file their tax returns. I think current data suggests we are making some progress on those fronts, as well. Nearly 40 percent of the taxpayers use the easiest tax forms, and more than 70 percent are taking the standard deduction.

EASIER FILING METHODS

And then there is our telephone filing program. This year over 20 million people were eligible to file their tax returns by a single phone call that took less than 10 minutes. So far we have had 2.8 million taxpayers who use that option. And as of April 26, we had more than 150,000 taxpayers who filed from their home computers through a third-party transmitter. That was a significant increase from the 1,000 who did it that way 1 year ago. We also had 3.1 million people who filed joint Federal/State tax returns electronically, which was about three times more than we had done the preceding year.

Electronic filing is not just limited to individuals. It is also available to businesses. And employers nationwide can now file their quarterly tax return electronically, and almost 200,000 of these returns were processed in 1995. We believe that electronic filing offers advantage both for us and for taxpayers. Taxpayers file more accurate returns. Our accuracy rate is well in excess of 99 percent, and they can get their refunds more quickly. We receive more accurate information, and obviously eliminate the need for paper processing. When we receive accurate information it eliminates the need for further contacts with the taxpayers, as well.

But electronic commerce is more than just receiving returns electronically. It includes electronic payments, as well. And more than 90 million taxpayers who were projected to receive refunds this year may have been eligible to have them directly deposited into their bank accounts. As of about 1 week ago we had over 10 million people who did that. Along with the responsibility, though, of serving taxpayers and providing easier filing methods, we also are charged with enforcing the tax laws, both civil and criminal.

IMPROVING COMPLIANCE

In addition to the improvements we have made in serving taxpayers, we also are working hard to improve our compliance operations. For the 3 years prior to 1994, the yield from our collection operations had declined between 4 and 6 percent, partly because of the decline in productivity. In 1994, despite a 9.5-percent decrease in our collection staffing, our collection yield increased by 3 percent. In 1995, it rose by more than 7 percent, about a 10-percent increase over 1993.

One way we did this was by recognizing that the earlier we could get to a debtor, the greater likelihood the debt would be paid. We are now asking for payment at the earliest possible time in our taxpayer service function, after an account question is resolved over the phone, or at the close of an audit.

IMPROVED COLLECTIONS

As a part of our effort to increase our collection yield, we are improving our knowledge of the composition of our accounts receivable inventory, as well. When taxpayers either do not file returns or they do not file accurate returns, we make assessments based on the tax laws irrespective of collection potential. We record these unpaid assessments as accounts receivable, and keep them on our books for as long as they are legally collectible.

But our accounts receivable inventory does not just include unpaid taxes. It also includes the ever-increasing interest and penalties related to those unpaid taxes. In addition, the law prescribes how long we have to keep them on the books—10 years. Thus, unlike the private sector, the IRS's accounts receivable cannot be written off, even when we know that an account can never be collected.

But the improvements we have made in our collection process not only helped us to increase our collection yield over the last several years, but are helping us to manage the accounts receivable inventory, and we are going to continue to work to increase our collection yield through the use of technology in our field operations. In 1995, our integrated collection system, which provides us online access to current account information—or provides it to revenue officers—was used in two districts, and in each of those districts our productivity increased by more than 30 percent. That productivity translated into collections that were put in the bank.

In 1996, eight districts are using the integrated collection system, and depending on funding, it could be fully installed nationwide by 1998. Through the year 2004, just that initiative should yield an additional $2 billion in collections.

Our 1995 appropriation required us to conduct a pilot project to contract out collection, as you know, and on March 5 we issued a request for proposals for that pilot. The request closed on April 12, and we intend to award up to five contracts by early this summer and initially deliver approximately 125,000 cases relating to taxpayers who are delinquent in paying their tax obligations. Payments under the contracts will be performance based; however, they will not be contingency fee contracts. Absent any delays in our

schedule, analysis of the results from that pilot should be available in the last quarter of fiscal year 1997.

In addition to our compliance activities in exam and collection, our criminal investigation division, as you know, investigates complex financial transactions of taxpayers looking for criminal tax violations and money laundering schemes. CI also is actively identifying and investigating new and emerging areas of tax fraud that impact on the economy and prey on honest citizens. These areas include bankruptcy fraud, health care fraud, insurance fraud, motor fuels excise tax cases, and nontraditional organized crime and telemarketing fraud.

In 1995 we received the first year of funding for a 5-year plan to improve compliance, with the dollars going directly to deficit reduction. Our 1995 compliance accomplishments were quite impressive. We closed an additional 676 exams and our audit coverage increased from 1.08 percent to 1.63 percent. We also collected an additional $803 million that was directly attributable to that compliance initiative, far exceeding the 331 million that we had promised.

Overall, with a 5-year commitment of $2 billion, we had conservatively committed to raise about $9.2 billion in additional revenue. While the loss of that compliance initiative certainly impacts Federal revenues, the important part that is sometimes overlooked is the corresponding loss in State revenues, because adjustments made during our compliance efforts are often used by the States to make corresponding State adjustments without the need for a State audit.

FISCAL YEAR 1996 APPROPRIATION REDUCTIONS

Attached as the appendix to my written testimony is a summary of our 1997 request. As you know, in 1996 we received an appropriation of $7.3 billion, which was less than the preceding year. That decrease posed a particular challenge to us, since about $200 million more was needed just for increases in costs that are beyond our control, such as pay raises and rent increases.

Our 1996 appropriation has allowed us to run our basic operations, and it did not affect the processing of returns or the payment of refunds within our customer service standards this year, and we had a very smooth filing season. But what we may not be able to accomplish again are the impressive results we achieved in deficit reduction last year through our compliance initiative funding. Based on our current 1996 funding we probably will not be able to perform some 290,000 examinations, with a potential reduction in revenue collection of over $324 million.

Examinations for our information reporting program will also be impacted. For example, reductions in our document-matching program and our substitute for return program, our very cost effective ways of addressing nonfiling, could result in a potential loss of $400-plus million in collected revenue.

For us, continued flat funding really can mean a reduction of $200 to $400 million from the 1996 level because of mandatory pay increases and rent increases. Like this year, we are certainly going to make it a priority to sustain our basic operations, processing the over 200 million tax returns and paying more than 90 million refunds. But to accomplish this we will probably have to, like we did

this year, find alternate ways to serve taxpayers. And like this year, we will have to decrease the amount of face-to-face contact that we can have with taxpayers, because that is the most expensive service we provide. The number of audits will go down as will the corresponding decrease in the audit coverage rate, and some of our collection operations may have to be curtailed.

But while we will continue to process tax returns and pay refunds on time, service to taxpayers could well suffer, and the amount of money collected next year could well be impacted, because we have certainly continued this year to recognize some of the benefits of last year's compliance initiative. I think what is harder to measure, though, Mr. Chairman, is what the long-term impact on compliance would be, and that is something that is, as I say, hard to measure, and we will not know, obviously, for several years.

But since becoming Commissioner almost 3 years ago, we have worked hard to improve our service. As I said, I am pleased to report some progress. We still have some improvements to make, and we look forward to working with this committee and trying to provide the best possible service to taxpayers and improve compliance, while at the same time reducing the burden on taxpayers.

Thank you very much.

PREPARED STATEMENT

Senator SHELBY. Thank you, Commissioner Richardson. We have your complete statement, and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF MARGARET MILNER RICHARDSON

Mr. Chairman and Distinguished Members of the Subcommittee: With me today are Mike Dolan, Deputy Commissioner, Jim Donelson, Chief Taxpayer Service and Acting Chief Compliance Officer, and Tony Musick, Chief Financial Officer. We appreciate the opportunity to be here this morning to discuss the IRS's operations, including the 1996 filing season, and our fiscal year 1997 budget request. Mr. Chairman, before turning to other subjects, I would like to say a few words about our Tax Systems Modernization Program. The reports required by our fiscal year 1996 Appropriation are nearing completion and will be delivered to you shortly. I understand that the Subcommittee plans to discuss our modernization efforts in detail at a later date, and we look forward to that discussion.

BACKGROUND

The IRS is in the financial services business—like a bank, a credit card company or an insurance company. We have the same basic processes—collecting money, processing data, maintaining customer accounts, and responding to account questions. Customers expect us to do this accurately and efficiently while maintaining the highest level of integrity and safeguarding their privacy.

Of course, there are some significant differences between our business and other financial services firms. We are also in the law enforcement business—we are charged with administering and enforcing the tax laws of this country and combating financial crimes. Another significant difference is sheer volume. Compared to other financial services businesses, we have many more customers—more than 200 million—and we handle much more money—over a trillion dollars annually. We also operate under different constraints. We cannot modify our product line, and we do not choose our customers. And, of course, we cannot change the laws that govern our operations; they are written by others.

Despite these significant differences, like many financial services firms, what we seek is easier to describe than achieve. We want to provide customers with better service at lower cost. We want to use less paper and take full advantage of new technologies.

Some say that all businesses must learn how to "do more with less." Having thought a lot about how we can do our job better, I believe instead that we must solve problems with innovative solutions. That requires a combination of updated technology, improved business processes and a flexible organization—the essence of modernization. We are modernizing the IRS on all three fronts.

For example, we have looked at our business processes and realigned our organization to be more efficient and flexible. We concentrated on the work currently performed by Service Centers, Computing Centers, Automated Collection and Taxpayer Service telephone sites, and district offices. During fiscal years 1994 and 1995, we consolidated our 70 phone and correspondence operations into 34 and will consolidate that work ultimately in 23 Customer Service Centers. We will soon be operating with three Computing Centers responsible for centralized mainframe computing instead of the twelve operating today. On October 1, 1995, the number of regions was reduced from seven to four, the staff in the remaining four regions was reduced, and we began to consolidate from 63 district headquarters to 33 offices. The district consolidations are ahead of schedule and will be completed by October 1.

We are in the midst of a major transition that began several years ago and that will continue for many more years. As I discuss our operations and the fiscal year 1997 budget request, I would like to focus on what we are doing to make things easier for taxpayers and how we are doing our job more efficiently and effectively.

THE FILING SEASON—SERVING TAXPAYERS BETTER

The filing season begins with taxpayers filling out their tax returns and sending them, either through the mail or electronically, to the IRS. Since coming to the IRS almost three years ago, I have made it a top priority to improve our service to our customers—the American taxpayers. For most taxpayers, this means making communicating with us and filing returns as simple as possible. I believe in the last three years we have made progress in improving our service to taxpayers.

Making It Easier For Taxpayers

We know that taxpayers get frustrated when they call us and repeatedly get a busy signal. In the past three years we have answered more calls than ever before, but we still have taxpayers whose calls are not answered. We also have a growing number of taxpayers who visit or write us. In 1993, we heard from taxpayers by phone, visit, or letter 73 million times. Last year, this number grew to 118 million. We expanded access to our TeleTax recorded information line, which offers taped information on 148 topics all day every day, and refund information 16 hours a day, Monday through Friday. Last year, we answered 61 million TeleTax calls, over twice the 30 million answered in fiscal year 1994. In fiscal year 1995, our assistors also answered 39 million calls, an increase of more than 3 million over the prior year. We were able to serve more taxpayers by increasing productivity, expanding our hours of service, and installing call routing equipment that allows us to manage our telephone workload better. This technology allows us, among other things, to route calls to available assistors, who may be in the next county, next state or across the country.

We are trying to answer taxpayer questions more quickly and more efficiently. In 1993, when I became Commissioner, not only were we unable to move calls around the country, but our assistors had access only to the taxpayer account information that was stored at the particular Service Center their office relied on. Technology has allowed us to remove this artificial geographic barrier and to enhance our ability to route calls automatically to personnel who have both the data and expertise needed to handle taxpayers' specific questions. Last year, we began providing nationwide access to certain taxpayer account information. As a result, we could resolve account issues with a single call 75 percent of the time; and we are bringing more tax account information on-line.

Despite these improvements, not every taxpayer call is being answered and not all taxpayers who want to be served are being served. So we are looking for other ways to meet taxpayers' information needs. At the outset, that means making the information we do provide so clear that taxpayers will not need to contact us.

We are also reducing the number of notices we send. We have recently eliminated notices that are now sent to about 18 million times a year, and we are looking to eliminate more. This is good for both the IRS (we save money on printing and postage and eliminate subsequent questions) and also taxpayers who are relieved of the stress that can surface when an official looking letter from the IRS arrives in the mail. The notices we will continue to send are being rewritten in clearer language so that fewer recipients will need to have any additional explanation.

Technology is creating entirely new ways for taxpayers to get forms and information from us while reducing our postage and printing costs. Three years ago, tax-

payers requesting a publication or form either had to call us to have the material mailed or they had to drop by one of our offices, their local post office or library. Not today—at least for many taxpayers. Taxpayers with access to a computer and modem can get forms and information anytime, anywhere in the world from FedWorld or our Web Site on the Internet. So far this year, millions of taxpayers have visited our Internet home page. On April 15th alone, we logged more than 1.8 million "hits" on our home page, and over 100,000 files, which contain forms and publications, were downloaded. Forms and publications are also available on CD–ROM, and, for the first time this year, through our automated "fax on demand" service.

We also sponsor VITA, the Volunteer Income Tax Assistance program, and TCE, Tax Counseling for the Elderly. With these two programs we also assist taxpayers by giving them the opportunity to have direct contact at more than 20,000 sites with volunteers trained by IRS personnel. Last year, more than 80,000 volunteers served almost 3.5 million taxpayers through both of these programs.

Easier Filing Methods

One of my goals has been to make it easier for taxpayers to file their tax returns. Current data suggests we are making progress on this front. USA Today recently reported on a poll that showed 52 percent of American taxpayers describe preparing their personal income taxes as easy. The Associated Press also recently reported on a poll that found that 50 percent of taxpayers insist the system is not too complicated for them personally. Nearly 40 percent of individual filers now use the easiest tax forms and more than 70 percent take the standard deduction.

What could be easier than filing by telephone? This filing season, about 20 million taxpayers were eligible to file their tax returns with a phone call that would take less than ten minutes. As of April 26, 1996, 2.8 million taxpayers have already used this option. Three years ago, TeleFile was a pilot, and, just last year, when it was only available in 10 states, 680,000 returns were filed by telephone.

As of April 26, 1996, more than 150,000 taxpayers had filed from their home computers through a third party transmitter, a significant increase from the 1,000 that filed through this service last year. Also this year, taxpayers in 31 states are able to satisfy both their federal and state tax obligations with a single electronic transmission, an increase from the 15 states where joint electronic filing was available in fiscal year 1993. As of April 26, 1996, 3.1 million joint Fed/State returns have been filed—almost triple the 1.1 million filed last year.

Electronic filing is not just limited to individuals. It is also available to businesses. Employers nationwide can now file their "Employer's Quarterly Tax Return" (Form 941) electronically, and almost 200,000 of these returns were processed for 1995. A TeleFile option for the simpler Form 941 returns is in the works.

Electronic filing offers advantages for both taxpayers and the IRS. Taxpayers file more accurate returns and get their refunds faster, and we receive more accurate information more quickly and eliminate the need for expensive paper processing.

Electronic commerce means more than just receiving returns electronically, it includes electronic payments as well. Most of the more than 90 million taxpayers getting refunds this year can have them directly deposited into their bank accounts, and as of April 26th, almost 10 million taxpayers had requested a direct deposit. Taxpayers enjoy the safety and ease of direct deposit, and we save the expense of printing and mailing checks.

The TaxLink/Electronic Funds Transfer Payment System, used by employers to pay employment and other depository taxes electronically, is faster, easier and more accurate for tax collectors and taxpayers alike. In fiscal year 1995, more than $232 billion was deposited electronically, a major increase over the $6.2 billion deposited in fiscal year 1994.

Despite these new electronic options, the number of paper tax returns filed has increased since 1992. Through April 26th of this year, we have received 2 million more returns than last year. The good news is that in the past three years we have realized a productivity improvement in processing paper returns.

We are also using other ways to process tax payments. By directing many payments to bank lockboxes, whereby banks process payments and credit them to the Treasury Department, the deposit process has been accelerated and accuracy has been increased. In fiscal year 1995, over $125 billion went through the lockbox payment system, an increase of $18 billion over the prior year.

IMPROVING COMPLIANCE

Along with responsibility for serving taxpayers and providing easier filing methods; we must also enforce the tax laws—both civil and criminal. In addition to the

improvements we have made in serving taxpayers, we are also improving our compliance operations.

Collection

For the three years prior to fiscal year 1994, yield from our Collection operations had declined between 4 and 6 percent, partly because of a decline in productivity. In fiscal year 1994, despite a 9.5 percent decrease in collection staffing, our Collection yield increased 3 percent. In fiscal year 1995, the Collection yield rose by more than 7 percent—a 10 percent increase since fiscal year 1993.

One way we accomplished this increase was by recognizing that the earlier a debtor receives a request for payment, the greater the likelihood a debt will be paid. We are now requesting payments at the earliest possible time—by the Taxpayer Service function after account questions are resolved over the telephone, or at the close of an audit. In fiscal year 1995, Examination secured payment of 64.2 percent of agreed tax assessments at the earliest possible time—the close of the examination.

We have also expanded the use of an important tool—the installment agreement—to keep taxpayers in the system who cannot immediately pay all they owe. By increasing installment agreement authority, we raised installment collections from $2.28 billion in fiscal year 1992 to $5.4 billion in fiscal year 1995.

As part of the effort to increase Collection yield, we are improving our knowledge of the composition of our accounts receivable inventory. When taxpayers either do not file returns or file inaccurate returns, we make assessments based on the tax laws irrespective of collection potential. We record these unpaid assessments as accounts receivable and keep them on our books for as long as they are legally collectible. While we attempt to collect these debts, some accounts are obviously uncollectible for various reasons, for example: the taxpayer has died or is insolvent. In other words, we know at the outset that some of these assessments will not be collected. But our gross accounts receivable inventory does not include just unpaid taxes; it also includes the ever-increasing interest and penalties related to those unpaid taxes. In addition, the law prescribes how long we must keep accounts receivable on the books—10 years. Thus, unlike private sector businesses, the IRS' accounts receivable cannot be written off even when we know that an account is not collectible.

Having a reliable estimate of delinquent taxes that are truly collectible is essential in enabling us to manage our collection efforts better.[1] At the end of fiscal year 1995, IRS gross accounts receivable inventory equaled $200 billion of which 28.5 percent or $56.9 billion reflected accrued interest and penalties. This is a $29 billion increase over the fiscal year 1994 balance. A significant portion of this growth was due to additional accruals of interest and penalties, the extension of time we are required to keep the receivables on the books from 6 to 10 years,[2] and to our non-filer program. The non-filer initiative was started in 1992 to encourage taxpayers who were not filing returns to get back into the system. While we realized the non-filer program would increase our accounts receivable inventory since many were not filing because of an inability to pay their tax obligations in full, we believed it was more important to get taxpayers filing again and then assist them with ways to meet their obligations by expanding our installment agreement and offer in compromise programs.

The gross accounts receivable inventory for compliance purposes is divided into two components: Currently Not Collectible and Active Accounts Receivable.

Currently Not Collectible (CNC) are accounts that a Collection employee has determined a taxpayer cannot currently pay. Accounts in this category are periodically monitored, and if a taxpayer is able to pay within the statutory 10-year period, the

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[1] The GAO has reported and we agree that financial receivables are those that the taxpayer has agreed to or the courts have set, and that from this amount we should estimate a net realizable value of accounts that are potentially collectible. To accomplish this, we have been working with GAO on a better way to represent these amounts on our financial statements. Starting with the fiscal year 1995 statements, we will classify amounts as financial receivables (the amounts that taxpayers have agreed to pay or courts have set), financial write-offs (financial receivables that have subsequently been determined to have no further collection potential), and compliance assessments (those amounts that taxpayers have not agreed to or on which the courts have not acted). These amounts will be audited by GAO.

[2] Fiscal year 1995 was the last year in which the accounts receivable inventory would automatically increase because of the extension of time we must keep accounts on the books from 6 to 10 years.

account will be collected. At the end of fiscal year 1995, $87.4 billion[3]—or nearly half the gross receivable total—is classified CNC. Of this amount:

—37.6 percent ($32.8 billion) is accrued penalties and interest.

—Over 85 percent ($75 billion) is not collectible because it is owed by defunct corporations; taxpayers adjudicated to be bankrupt; hardship cases; or because of the inability to locate the taxpayer.

Active Accounts Receivable are accounts that are potentially collectible and that continue to be pursued through activities ranging from notices and telephone contacts, to installment agreements and offers-in-compromise, and, ultimately, liens, levies and seizures. At the end of fiscal year 1995, $88.8 billion[4] is classified in the Active Accounts Receivable category. Of this amount:

—41 percent ($36.6 billion) the largest portion of the active account, has been assigned for enforcement action;

—22 percent ($19.1 billion) of the inventory is either awaiting adjudication by a court or acceptance of an offer-in-compromise;

—13 percent ($11.7 billion) is currently being collected by sending notices to taxpayers;

—13 percent ($11.2 billion) is being collected through installment agreements;

—9 percent ($8.6 billion) is accounts currently under review for a potential change in assessment; and

—2 percent ($1.6 billion) is lower value cases that will be collected through systemic monitoring, such as refund offsets and yearly notices to taxpayers.

Included in these numbers is $18.5 billion of accrued penalties and interest.

The improvements we have made in the collection process, that I described earlier, not only helped us increase our Collection yield over the last several years but these improvements are also helping us manage the accounts receivable inventory. And we will continue to increase our Collection yield through the use of technology in our field collection operation. In fiscal year 1995, the Integrated Collection System (ICS), which provides on-line access to current account information to our revenue officers, was used in two districts. In these two districts, productivity increased more than 30 percent. This productivity translates directly to additional tax collections "in the bank." In fiscal year 1996, eight districts will be using ICS, and, depending upon funding, it could be fully installed nationwide in fiscal year 1998. Through fiscal year 2004 this initiative alone will result in an additional $2 billion in revenue collected.

Our fiscal year 1996 appropriation required us to conduct a pilot project to contract out a part of our Collection activity. On March 5, we issued the Request for Proposals for the pilot. The Request closed April 12, 1996. We intend to award up to five contracts by early summer and initially deliver approximately 125,000 cases relating to taxpayers who are delinquent in paying their tax obligations. Payments under the contracts will be performance based; however, they will not be contingency fee contracts. Absent any delays in our schedule, analysis of results from the pilot should be available in the last quarter of fiscal year 1997.

Contractors and their employees will be subject to the disclosure laws, the Privacy Act, the Taxpayer Bill of Rights and applicable sections of the Fair Debt Collection Practices Act. Information provided to contractors by the IRS or collected by contractors from taxpayers cannot be used for any purposes other than fulfillment of the requirements for the awarded contract and cannot be sold or otherwise transferred by the contractor.

Examination

Our compliance program is not only about our collection activities or our traditional efforts to audit taxpayers. We continue to refine our compliance programs by developing new compliance approaches. Through programs like Advanced Issue Resolution and Advance Pricing Agreements, we are stressing early resolution of issues—a practice that saves everyone money. With Advanced Issue Resolution, we can accelerate the collection of the largest corporate assessments by resolving recurring issues and simply carrying the resolution forward to later years. Reducing the number of issues under examination is a cost savings for both taxpayers and for us. Under this procedure, taxpayers have agreed to pay about $1.1 billion during fiscal years 1993–95.

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[3] Not included in this balance are Trust Fund Recovery Penalty assessments of $6.3 billion that are potentially duplicative.

[4] Not included in this balance are Trust Fund Recovery Penalty assessments of $8.7 billion that are potentially duplicative and Resolution Trust Corporation assessments of $9.0 billion that have not yet moved to Currently Not Collectible.

The Advance Pricing Agreement program was developed as a new way to resolve intercompany pricing issues. As a cooperative process, both taxpayers and the government derive significant benefits. Taxpayers welcome certainty in a complex area and avoid a lengthy debate with the IRS. At the end of fiscal year 1995, we had entered into 22 Advance Pricing Agreements, more than the number that had been completed in all the previous years of the program combined. Everything this year points to even higher levels of production, and we currently have 109 Advance Pricing Agreements in process.

We are also responding to taxpayer concerns, for example, those raised by the small business community. I participated in numerous town meetings with small business owners and the White House Conference on Small Business, where small business owners described one of their primary concerns as the worker classification issue—whether workers should be classified as employees or independent contractors. Although resolving this issue may ultimately require legislation, we are doing what we can administratively by revising our training materials, offering an optional settlement program, and providing early referral of employment tax issues to IRS Appeals.

As I stated earlier, we are finding ways to reduce the amount of paper small business owners have to store, by developing rules that permit taxpayers to use computer imaging systems to replace the paper records now required. We also raised the threshold for meals and entertainment expense documentation from $25 to $75, reducing the number of receipts that businesses have to retain for tax purposes.

Working with private industry, we are responding to the increased sophistication of transactions in the financial world and specialization in the business community. We have cooperatively developed Market Segment Specialization Program guidelines, focusing on the practical problems of examining a market segment and identifying particular issues of interest to the IRS. In turn, taxpayers are better informed about the non-compliance in that market and about the IRS's position. Through January 1996, we had issued 27 Market Segment guidelines covering 23 markets.

Criminal Investigation

In addition to our compliance activities in examination and collection, our Criminal Investigation Division (CI) investigates complex financial transactions of taxpayers, looking for criminal tax violations and money laundering. CI is also actively identifying and investigating new and emerging areas of tax fraud that impact on the economy and prey on honest citizens. These areas include bankruptcy, health care, insurance, motor fuels excise taxes, non-traditional organized crime and telemarketing. I would like to share with you the results of our efforts in three of these areas.

Health care fraud is found in a wide range of schemes including home health care, false claims/billings, rolling labs, transportation services, and kickbacks/bribes. While most of this fraud is investigated by the FBI and U.S. Postal Service using the mail fraud statutes, CI investigates them as tax violations if income is not reported or underreported, expenses are overstated, or a tax return is otherwise false. CI's ability to bring tax charges coupled with its expertise in money laundering investigations is often essential to the successful prosecution of health care fraud cases. In the last three fiscal years, CI initiated 344 investigations; recommended 168 prosecutions, and obtained 111 convictions in this area.

Health Care Convictions.—The CEO of Integrated Systems Incorporated, John P. Milne, was sentenced on October 7, 1995 to 2 years in prison, 5 years' probation and ordered to make restitution of $1.4 million and pay IRS $339,780 in back taxes and penalties. Milne plead guilty to charges of tax fraud, making false claims against the U.S., making false statements to banks and mail fraud. His health care scheme involved negotiating reduced medical rates with hospitals, not disclosing the amount of the discounts to his clients and filing for full payment, then keeping the difference for himself. In this multi-agency investigation, CI's financial investigative expertise not only uncovered income tax evasion but also documented a health care scheme which had defrauded numerous health care providers. This evidence provided the proof which enabled the court to demand $1.4 million in restitution.

In another Health Care Fraud investigation, Jeanette G. Garrison, owner of Healthmaster Home Health Care in Macon, Georgia, was sentenced on October 30, 1995, to 33 months imprisonment, three years of supervised release and 200 hours of community service on federal charges based on criminal events that transpired while she controlled Healthmaster. She was also ordered to pay $2.5 million in fines and $16.5 million in restitution. Garrison plead guilty to one count of conspiracy to defraud the United States and nine counts of false statements. She conspired to defraud the Medicare Program of millions of dollars by the submission of fraudulent cost reports for reimbursement to the Medicare fiscal intermediary between 1989

and 1993. CI special agents, working with the Georgia Bureau of Investigation and the FBI, combed through hundreds of billing records, financial records and invoices to meticulously document and prove this conspiracy against the government.

Non-Traditional Organized Crime.—CI has been involved in organized crime investigations since its inception as the Special Intelligence Unit in 1919. CI's organized crime program has recently expanded from traditional groups and now includes groups such as Asian and Russian organized crime and street gangs.

For example, CI is conducting investigations of Russian organized criminal elements that are involved not only in traditional criminal enterprises such as extortion, murder for hire, and narcotics, but also are involved in motor fuel excise tax evasion schemes. As part of these efforts, four conspirators in a $34 million Long Island, New York gasoline tax fraud, run by traditional New York organized crime families and Brooklyn, New York based Russian organized crime groups, received stiff jail terms ranging up to 52 months in a motor fuel tax fraud scheme. The four were among a group of 18 originally charged with tax evasion and conspiracy in a complicated "daisy chain" scheme in which they set up sham companies to avoid paying excise tax on gasoline.

Telemarketing Convictions.—Another growing area of criminal activity is telemarketing fraud. Fraudsters use telephonic and wire communications to promote, solicit, or market products and/or services fraudulently. Monies obtained through telemarketing solicitations are then used to enrich the promoters of these frauds. Because telemarketing fraud often crosses state borders, federal and state law enforcement agencies must work together to prosecute the cases successfully. From fiscal year 1993 through fiscal year 1995, 133 telemarketing investigations were initiated; 102 prosecutions recommended; and 86 convictions were obtained.

In September 1994, the Western New York Telemarketing Task Force, including agents from CI, uncovered one of the largest telemarketing cases in the Western New York area. Four corporations and 13 individuals were indicted and charged with operating a telemarketing scam that bilked hundreds of victims, mostly senior citizens throughout the United States and Canada, out of millions of dollars. Three of the individuals indicted were charged with Title 26 Section 7211, having to do with making false statements to purchasers relating to tax, a seldom used statute that can effectively be used in telemarketing fraud investigations. This statute makes it a crime for anyone to solicit payment for the sale or lease of an "article" and falsely state, orally or in writing, that any part of the payment, both sale or lease, is to pay federal tax. The Assistant United States Attorney working with the task force has utilized this statute to facilitate plea agreements for individuals cooperating with the government.

REVENUE PROTECTION

The 1995 Filing Season

Last year, I told you, Mr. Chairman, and the Members of this Subcommittee, that our biggest challenge was to put in place better methods to protect the tax revenue from those who improperly attempted to claim refunds. We accomplished this by using both technology and a different approach to compliance to stop improper refund claims. We used numerous systemic verifications including increased checks of social security numbers. We established new criteria for Electronic Return Originators (ERO's), including fingerprint and credit checks, and increased monitoring of ERO's. We delayed 7.4 million refunds—or about 8 percent—and increased compliance resources devoted to checking these refunds for accuracy.

I am pleased to report that our efforts were successful. One and a half million fewer dependents were claimed, and there were approximately 100,000 fewer earned income tax credit (EITC) claims than in the previous year. CI identified more than 4,100 refund schemes involving almost 60,000 returns, and prevented the issuance of $78 million in refunds. Last year, we initiated 491 criminal investigations involving refund schemes and return preparers. Prosecution recommendations were forwarded on 404 cases, and we obtained indictments of 329 individuals and convictions in 300 cases.[5] Eighty-two percent of the convictions resulted in prison sentences averaging over 18 months.

Through pre-refund examinations, we prevented the issuance of an additional $425 million in refunds. We visited over 6,600 ERO's, issued 707 warnings for violations and suspended 287 ERO's. Thus, last year, direct compliance efforts prevented $503 million in improper refunds from being issued. In fact, in its August, 1995 Economic and Budget Outlook update, the Congressional Budget Office decreased anticipated EITC outlays by $2-$3 billion a year over seven years, stating, "EITC

[5] These totals include cases initiated in the prior fiscal year.

spending has been lower than expected this year, possibly as a result of a recent crackdown by the IRS. . . ."

The 1996 Filing Season

This filing season we continued to devote substantial resources to detecting and stopping improper and fraudulent claims for refund. We refined our efforts to address improper refund claims based on what we learned last year. We still required ERO's to meet suitability standards, and we continued our ERO monitoring efforts. We also continued to look carefully for suspicious returns and check social security numbers. However, we delayed far fewer refunds this year as taxpayers now understand the importance of filing returns with correct social security numbers. In fact, during the filing season, the number of social security number problems on electronically filed returns decreased by more than 26 percent from last year.

THE 1995 COMPLIANCE INITIATIVE

In fiscal year 1995, we received the first year of funding for a five-year plan to improve compliance with the dollars raised going directly to deficit reduction. Our fiscal year 1995 compliance accomplishments were impressive. We closed an additional 676,000 examinations and audit coverage increased from 1.08 percent to 1.63 percent in fiscal year 1995. We issued an additional 86,000 determination letters for exempt organizations and employee plans. And, we collected an additional $803 million directly attributed to the compliance initiative, far exceeding the $331 million we promised. Overall, with a five year investment of $2 billion, we had conservatively committed to raise $9.2 billion in additional revenue. While the loss of the Compliance Initiative impacts federal revenues, an important point that may be overlooked is the corresponding loss in state revenue, because adjustments made during our compliance efforts are used by the states to make corresponding state adjustments without the need for a state audit.

FISCAL YEAR 1997 BUDGET REQUEST

Attached as an Appendix is a summary of the IRS's fiscal year 1997 request. As you know, for fiscal year 1996 the IRS received an appropriation of $7.348 billion, less than the IRS's $7.483 billion fiscal year 1995 appropriation. This decrease posed a particular challenge to us since about $200 million more was needed for cost increases beyond our control, such as pay raises and rent increases. Our fiscal year 1996 appropriation has allowed us to run our basic operations and did not affect the processing of returns or the payment of refunds within our customer service standards of 40 days for paper filing and 21 days for electronic filing during the 1996 filing season.

What we will not be able to accomplish again are the impressive results we achieved in deficit reduction last year through our Compliance Initiative funding. Based on our current fiscal year 1996 funding, we will not be able to perform some 290,000 examinations, with a potential loss in revenue collection of $324.8 million. Examinations through our information reporting program will also be affected. For example, reductions in our document matching program and our substitute for return program, an effective means of addressing non-filing, could result in a potential loss of $417 million in collected revenue.

For the IRS, continued flat funding really means a $200 to $400 million reduction from the fiscal year 1996 level because of mandatory pay raises and rent increases. Like this year, we will make it a priority to sustain our basic operations—processing more than 200 million tax returns and paying more than 90 million refunds. To accomplish this, however, we will, like we did this year, have to find alternate ways to serve taxpayers, and, like this year, we will have to decrease the amount of face to face contact with taxpayers—the most expensive service to taxpayers we provide. The number of audits will decrease, with a corresponding decrease in the audit coverage rate, and some of our collection operations may have to be curtailed. While we will continue to process tax returns and pay refunds on time, service to taxpayers may suffer and the amount of money collected next year could be impacted. But what is more difficult to measure is the longer term impact of reductions on overall taxpayer compliance levels.

CONCLUSION

Since becoming Commissioner almost three years ago, I have worked hard to improve our service to our customers. I am pleased to report progress, but despite that progress, we recognize that we still have much to do.

INTERNAL REVENUE SERVICE FISCAL YEAR 1997 BUDGET IN BRIEF

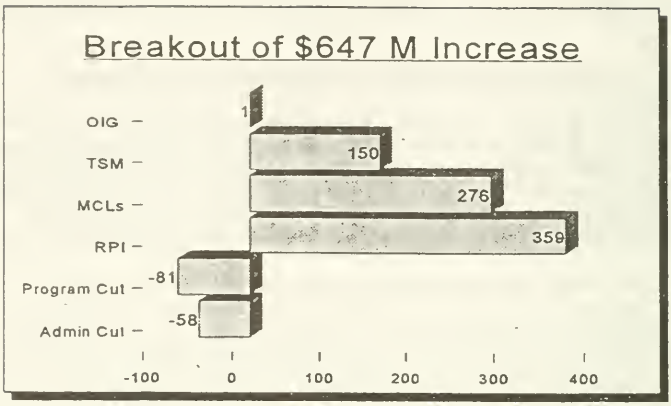
I. Introduction--A Three-Part Investment in Tax Administration

For FY 1997, the Internal Revenue Service has proposed a series of investments that will substantially reduce the burden on the American taxpayer, enhance compliance, and maximize revenue collections. The Service is submitting budget proposals for FY 1997 that total $7.995 Billion and 109,050 FTE. The total budget request represents an increase of $647 Million and 2,699 FTE over the FY 1996 operating level. Our FY 1997 budget consists of three equally significant and critical investment components:

A. **The Tax Systems Modernization (TSM) Program.** IRS is in the financial services business. The Service performs the same basic functions--collecting money, processing data, maintaining customer accounts, and responding to customer questions. Its 200 million customers expect it to do these activities accurately and efficiently, while maintaining the highest level of integrity and safeguarding their privacy. The TSM Program projects are designed to provide customers with better, faster service as well as enhance compliance. IRS has requested $150 Million in additional TSM Program funding in FY 1997 for four tax systems modernization investments. These investments will finance immediate and tangible improvements in our service to taxpayers, with emphasis on electronic receipt of tax returns and payments, extensive data capture, streamlined storage and retrieval of data, and early identification of issues with as many as possible resolved with a single telephone call. In response to guidance received from Congress, the National Research Council and GAO, the Service will extensively use contractor support in developing and integrating modernized operational systems.

B. **Revenue Protection Initiative.** The Service is requesting $359 Million and 3,820 FTE for a Revenue Protection Initiative (RPI) that is estimated to generate $1.5 Billion in FY 1997-- a return on investment of better than 4 to 1. During the outyears--FY 1999 and beyond, the increase to enforcement revenues from this investment will exceed $3 Billion annually. All staffing increases will be placed in call sites and service center based enforcement programs. Not only do these telephone and correspondence activities represent highly cost effective investments that emphasize up-front treatments and early contacts with taxpayers, they are also less intrusive and burdensome than traditional face-to-face enforcement actions that rely on revenue agent and revenue officer involvement. In reviewing the proposed FY 1997 initiative, Congress should consider the proven record of delivering the revenue promised in connection with the FY 1995 Compliance Initiative. In FY 1995, the IRS received the first year of funding for what had been a five year plan to improve compliance with the dollars collected going directly to deficit reduction. The FY 1995 accomplishments were impressive. Over $800 Million was collected, far exceeding the $331 Million promised. While the loss of the Compliance Initiative impacts federal revenues, an important point that may be overlooked is the loss in state revenues, because adjustments made during IRS compliance efforts are used by the states to make corresponding state adjustments without the need for a state audit.

C. **Maintaining Current Levels of Service.** The Service needs $276 Million just to maintain its FY 1996 program levels in FY 1997. These additional resources, which are offset by administrative and program reductions totaling $139 Million, are needed to cover the expected increase in the number of returns filed. The resources also are used to pay for unavoidable staffing related expenses, such as pay increases. Finally, the additional resources are needed for inflationary increases to non-staffing related expenses, including postage, printing, and essential contracts, such as those for National Archives and Records Administration and Financial Management Services. These costs represent bills the IRS does not control, but must pay. Without these resources, the Service will be forced to reduce programs, or to shortchange funds intended for training, supplies, enforcement travel and essential enforcement expenses.



Total Decreases: $139 Million Total Increases: $786 Million

Note: A detailed breakout of increases and decreases is contained in Appendix A--Budget Overview.

II. Mission and Objectives--Collecting Revenue to Finance the Government

The mission of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness. To achieve its mission, the Service has identified three strategic objectives.

A. **Increase Voluntary Compliance**. IRS encourages and assists taxpayers to file timely and accurate returns and pay on time. When taxpayers do not comply, appropriate enforcement action needs to be taken.

B. **Maximize Customer Satisfaction and Reduce Burden**. The Service works to reduce the time and expense to taxpayers, tax professionals, and others in complying with the tax laws, while increasing their satisfaction with the tax system.

C **Achieve Quality-driven Productivity through Systems Improvements and Employee Development**. IRS is using systems improvement tools and techniques to develop a highly-trained work force.

III. Performance Measures Hierarchy -- Results-Based Budgeting

As one of the country's largest financial services organizations, the IRS needs to be a leader in managing its own finances. The IRS volunteered to serve as a pilot for the Government Performance and Results Act (GPRA), which requires agencies to: formulate strategic plans that articulate their mission, goals, and objectives; develop annual performance plans that spell out annual targets against the strategic goals; measure program performance against their strategic goals and objectives; and hold themselves accountable for achieving results.

As part of its GPRA responsibilities, and to integrate its planning, budgeting and assessment processes, IRS has developed a hierarchy of performance measures. At the top of this hierarchy of measures is a barometer of overall Service performance. This indicator compares the amount of revenue collected during a fiscal year, minus the IRS costs of collecting that revenue and minus the monetized value of the burden hours placed on taxpayers in meeting their tax obligations, with the amount of revenue that would have been collected if all taxpayers had paid their full tax liability.

The second level of the measures hierarchy contains measures for the Service's three strategic objectives Also at this level are measures that require the interrelated efforts of multiple functions. The mission and objective level measures and performance targets for FY 1997 are shown in the following table. The multi-functional measures can be found in Appendix B--Performance Measures Hierarchy.

Finally, the third level of the measures hierarchy contains the measures for the Service's 18 budget activities. These 18 activities represent the Service's various functional components; each activity contributes toward the achievement of the Service's mission and objectives. Details on these measures are also shown in Appendix B--Performance Measures Hierarchy.

IRS PERFORMANCE MEASURES--MISSION AND OBJECTIVES			
Performance Measures:	FY 95	FY 96	FY 97
Mission. Collect the proper amount of tax revenue at the least cost.			
Revenue Collected - (Budget+Burden) / Total True Tax Liability	.7766	.7825	.7887
Objective: Increase Compliance.			
Total Collection Percentage (TCP)	86.0%	86.3%	86.7%
Total Net Revenue Collected	$1.271T	$1.358T	$1.450T
Objective: Maximize Customer Satisfaction and Reduce Burden.			
Revenue Collected per Dollar of Burden	$10.97	$11.38	$11.80
The time expended by taxpayers in fulfilling their tax responsibilities (Hours)	5.3 B	5.3 B	5.3 B
Favorability of IRS (Roper Survey)	36.0%	47.0%	49.0%
Objective: Achieve Quality-Driven Productivity.			
Revenue Collected per Dollar of IRS Budget	$172	$185	$181

IV. The Tax Systems Modernization Program

The Service is requesting $150 Million for a series of Tax Systems Modernization Program investments. These investments will finance immediate and tangible improvements in IRS' service to taxpayers. The additional resources will be used for the following projects.

A. **Integrated Case Processing System/Integrated Collection System.** With the resources provided by this initiative, IRS employees will be provided with greater access to information and the ability to resolve issues over the telephone by installing 3,500 Integrated Case Processing workstations, 22% of the total workstations required. The Service will also

automate many of the activities of field revenue officers, by implementing the Integrated Collection System in 20 of 33 districts, providing access to 60% of revenue officers. Finally, IRS will modernize telecommunications infrastructure and data and voice connectivity by funding 14 additional sites for universal wiring, approximately 15% of the total universal wiring requirements.

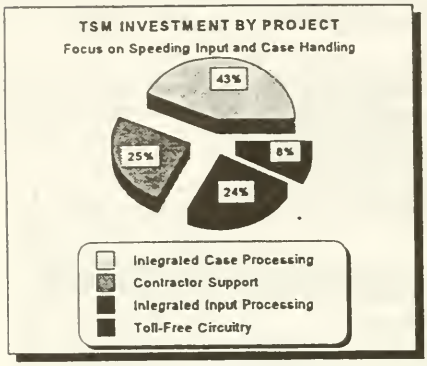


Chart breaks out $150 M TSM Proposed Increase.

B. **Contractor Support**. With the resources provided by this initiative, we will provide funding for contractor support in developing and integrating modernized operational systems, in response to guidance received from Congress, the National Research Council and GAO. The Service will use its major integrator to perform the necessary architecture, systems engineering and design tasks so that specification of hardware, software, and telecommunications products will lead to a fully functioning system. The integrator also will play a major role in the design and development of the Workload Management System, which will provide the IRS with a corporate system to track and prioritize workload.

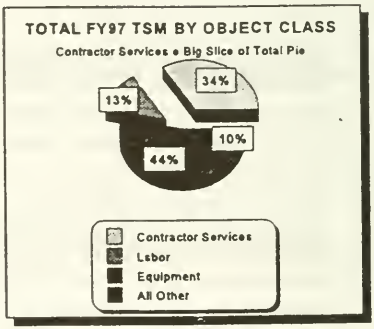


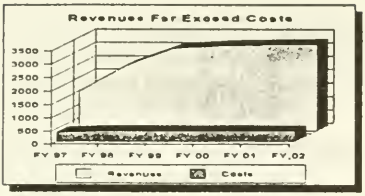
Chart breaks out total $850 M TSM Request

C. **Integrated Input Processing System**. With the resources provided by this initiative, the universe of taxpayers that can file electronically by telephone will be expanded through funding toll free circuitry costs associated with expanding Telefile.

D. **Toll Free Circuitry.** With the resources provided by this initiative, the Service will resolve many more taxpayer inquiries through a combination of increased on-line assistance and self service applications, using Voice Response Units, which permit callers to route themselves to interactive systems or to specially trained IRS assistors.

V. Revenue Protection Initiative--A Modest Investment with a Big Return

The Revenue Protection Initiative (RPI) is a continuation of the Service's long term strategy to improve voluntary compliance. Consistent with the Service's business vision, the emphasis is on resolving issues by telephone and avoiding more costly face to face contacts with taxpayers. The return on investment is significant--4 to 1 in FY 1997 and 7 to 1 from FY 1997 to FY 2002.



Total Revenues: $16B Total Costs: $2.4B

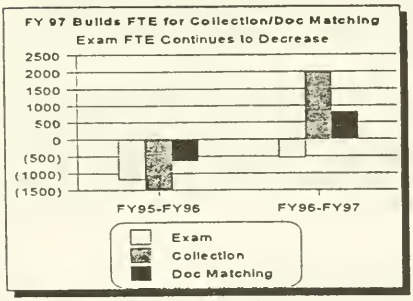
RPI involves four major programs. Collection represents about two thirds of the total program increase. Staffing for Automated Collection System call site and Service Center Collection Branch programs will generate more than $1.25 Billion in revenue in FY 1997. Beyond these increases, the Collection component includes 240 FTE for the Individual Tax Identification Numbering System (ITIN). Scheduled for implementation in the Philadelphia Service Center in July, 1996, ITIN will--during its first year in operation--generate valid TINs for over one million taxpayers (mostly non-resident aliens) who do not have social security numbers.

The remaining one-third of the total program is for three programs. First, Document Matching increases will finance enhancements to the Underreporter Program, which compares data from information returns with filed returns, and also to the Substitute For Return Program, which creates returns for taxpayers who fail to file returns. Second, Examination increases will fund more correspondence audits by service center employees, which will increase the audit coverage rate from 1.4% to 1.5% while expanding revenues.

FY 97 REVENUE INITIATIVE

Program	FTE	$(000)	Revenue
Collection	2,490	$263	$1,265
Exam-SC	300	$35	$88
CI(QRDT)	230	$21	---
Doc Match	800	$40	$136
TOTAL	3,820	$359	$1,489

FY 97 Benefit Cost Ratio is 4 to 1.



Includes Base and Increases; Exam excludes Appeals

Third, the Criminal Investigation increase will be used for Questionable Refund Detection Teams (QRDT), aimed at protecting revenues by prosecuting individuals involved in large scale fraud schemes.

As shown in the chart on the left, the Service's revenue producing activities were reduced in FY 1996. This initiative would restore the reductions to Collection and Document Matching and in the process bring in additional resources and reduce the Federal deficit. The total resources for Examination, which absorbed a big share of the program reduction discussed below, would continue to decrease. The impact of total FY 1997 staffing on some key performance measures is shown at the right:

KEY PERFORMANCE MEASURES

Measure:	FY 96	FY 97
CollectionYield	$24.9B	$25.9B
UR Assessments	$1,368M	$1,619M
SFR Assessments	$1,292M	$1,140M
Audit Recommended $	$23.8B	$23.4B
Audit Coverage	1.54%	1.51%

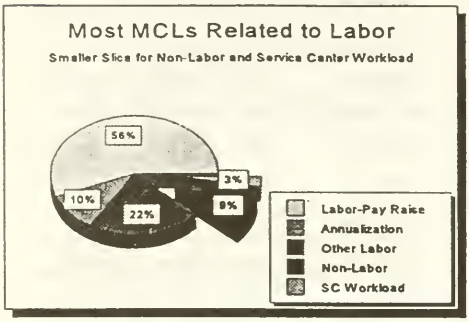
UR=Underreporter SFR=Substitute For Return

VI. Maintaining Current Levels of Service

To maintain current operations and protect the integrity of the filing season, the Service must have the resources to pay for both the inflationary costs associated with statutory pay and other mandatory increases in support costs, and the expected increases in the number of returns filed.

A **Mandatory and inflationary Costs Related to IRS Staff**:

1 Pay Raise and Benefit Increases The statutory pay increase for FY 1997 is expected to be 3.1%. Total cost is $155 Million. Without this increase the Service would be forced to reduce FTE and disrupt program delivery.



2. Annualization This increase is needed to annualize the FY 96 pay increase. Total cost is $28 Million. Without this increase the Service would be forced to reduce FTE and disrupt program delivery.

3. Non-Pay Raise Labor Increases. IRS has experienced $61 Million in labor cost growth in excess of that budgeted for in the usual pay raise and personnel benefit inflation. This is because promotion costs result from career ladder advancements, above journey level promotions, and within grade increases. Without senior graded employees, the Service would be hampered in working higher graded cases in Examination, Collection and other budget activities. Absent this increase the Service would be forced to reduce FTE and programs.

B **Service Center Workload Growth**. Resources will cover the projected increase in Service Center workload (processing tax returns and issuing refunds) which is due to growth in the taxpayer population and tax law changes. Primary tax returns are expected to reach 199.5 million in FY 1997, an increase of 2.4 million from the current year estimate of 197.1 million. Supplemental documents (amended returns, extensions to file, etc.) are projected to increase .5 million from the FY 1996 level of 12.1 million.

VII. Program Decreases

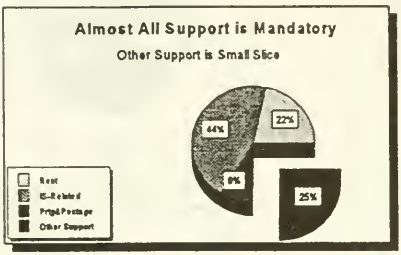
There are two categories of decreases. First, there is a program reduction that represents the Service's portion of a base program cut applied to most Departmental bureaus to help balance the Federal budget over the next seven years. Second, there is the fourth year's installment of administrative cost reductions mandated by Executive Order.

A **Program Reduction**. Because a base reduction cannot be achieved through further administrative savings, the cut is being taken as a program reduction that could have some impact on the Service's ability to collect revenue in FY 1997. This reduction is being taken in the more traditional enforcement job categories--those that engage in face-to-face examination and collection activities. While these positions continue to be vital to the overall enforcement efforts, and will always play a major role in collecting revenue, the IRS business vision calls for shifting the balance of the enforcement programs toward those that are featured in the Revenue

Protection Initiative (RPI), discussed above. RPI consists of programs based in the service centers and call sites that deal with taxpayers by telephone and through correspondence. *Without RPI, the FY 1997 program reduction to traditional "back-end" enforcement functions performed by Revenue Agents and Revenue Officers is not offset with increases to new "front-end" enforcement functions.*

JOB CATEGORY FTE REDUCTIONS	
Revenue Agents	462
Revenue Officers	230
Special Agents	88
Tax Auditors	91
Tech/Prof/Clerical	470
TOTAL	1,341

B **Administrative Reduction Pursuant to Executive Order.** This reduction reflects the FY 1997 adjustment relating to Executive Order 12837, which requires agencies to reduce administrative costs by not less than 14 percent from FY 1994 and FY 1997. This is to be achieved by annual reductions of three percent (five percent in 1997) to the baseline FY 1994 amount, adjusted for inflation. These reductions have exhausted the Service's ability to make support reductions. Although IRS has a support budget of $2 Billion, over three fourths of it is either information systems related, and used to purchase ADP equipment or telecommunications, or is mandatory, and pays for categories such as rent, postage, and printing. The remaining one fourth, has been reduced severely; what is left is used for case related travel; enforcement expenses, including lien fees; training; and services and supplies, such as computer discs.



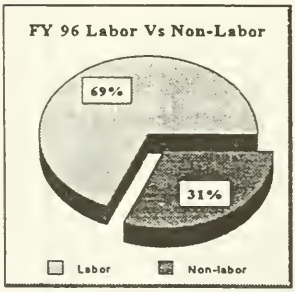
Other Support pays for training, case travel, enforcement expenses, etc.

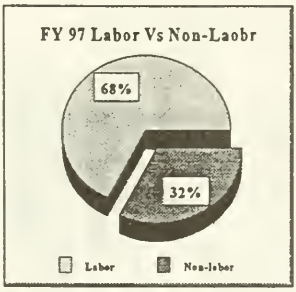
VIII. Conclusion

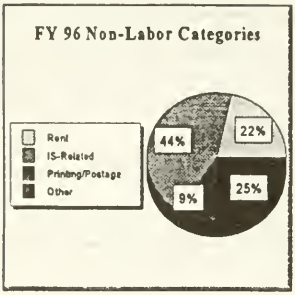
The FY 1997 dollars invested in IRS will be well spent. The Service has proven that it can deliver on its promises. Our investment request is not large when compared with the potential benefits--both in additional revenue collections and in improved service to taxpayers.

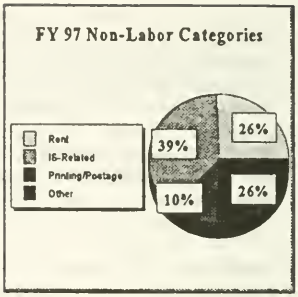
Appendix A

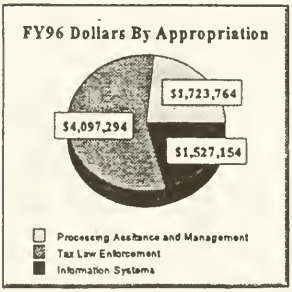
BUDGET OVERVIEW



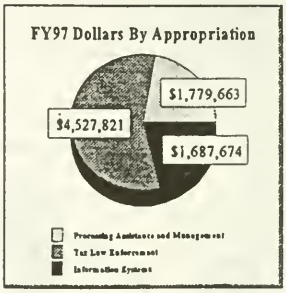




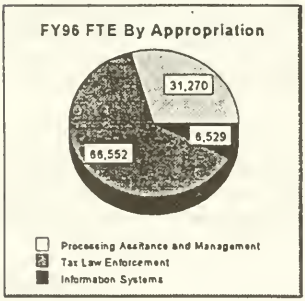


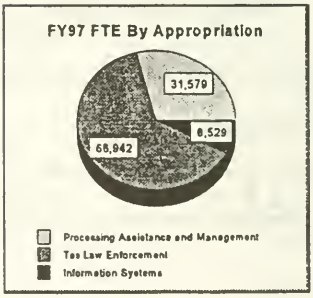


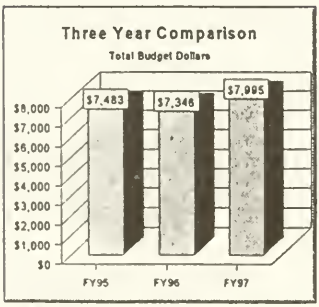
Dollars in Thousands



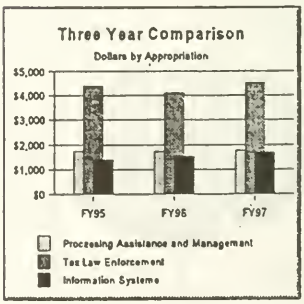
Dollars in Thousands







Dollars in Millions



Dollars in Millions

	FTE	$(000)
FY 1996 OPERATING LEVEL	108,361	$7,348,212

FY 1997 CHANGES:		
1. Maintaining Current Operations	**FTE**	**$(000)**
(a) Maintaining Current Operations		
1. Labor	--	154,901
2. Non-Labor	--	24,575
(b) Annualization of FY 1996 Pay Raise	--	28,109
(c) Service Center Workload Growth	220	7,227
(d) Non-Pay Raise Labor Shortfall	--	61,000
Subtotal	220	275,812
2. Reductions	**FTE**	**$(000)**
(a) Admin. Cost Reduction (E.O. #1283	--	(58,200)
(b) Compliance/IS Program Reduction	(1,341)	(80,500)
Subtotal	(1,341)	(138,700)
3. Tax Systems Modernization	**FTE**	**$(000)**
(a) Integrated Case Processing System	--	64,176
(b) Contractor Support	--	38,024
(c) Integrated Input Processing System	--	36,000
(d) Toll-Free Circuitry	--	11,800
Subtotal	0	150,000
4. Revenue Protection Initiative	**FTE**	**$(000)**
CI (QRDT)	230	20,812
Examination - Service Center	300	35,423
Collection - ACS & SCCB	2,250	250,746
Document Matching	800	39,631
ITIN	240	12,385
Subtotal	3,820	358,997
5. Other	**FTE**	**$(000)**
OIG Reimbursement	--	834
FY 1997 PRESIDENT'S BUDGET	109,050	$7,896,155

1. Maintaining Current Operations

(a) In order to maintain current operations, the Service must fund: increased salary costs associated with the pay raise, and inflationary price increases. Also included is a 3% rent reduction that reflects a GSA estimate based on the most recent site inventory.
(b) Amounts needed in FY 1997 to pay for FY 1996 pay raise.
(c) Resources needed to cover the projected increase to the growth in taxpayer population.
(d) Labor cost growth due in part to lower attrition rates resulting in increased seniority and higher salaries.

2. Reductions

(a) The FY 1997 adjustment responding to Executive Order 12837, requires agencies to reduce administrative costs by not less than 14% between 1994 and 1997; the FY 1997 reduction is 5%.
(b) The Service's portion of a base program cut applied to all Departmental bureaus - Includes a $67.5 million cut to TLE and a $13 million cut to IS.

3. Tax Systems Modernization

Integrated Case Processing System will improve information availability to front-line employees. A subset of that, the Integrated Collection System will be implemented in 20 of 33 districts with 60% of revenue officers having access. As guided by Congress, GAO, and the National Research Council, information systems development and integration work will shift to its major contractors. Cyberfile provides most individual taxpayers the ability to file tax returns electronically. Telefile eligibility will expand to married and head of household taxpayers increasing the number of taxpayers who can use Telefile from 23 million to 40 million.

4 Revenue Protection Initiative

The Revenue Protection Initiative (RPI) is a continuation of the Service's long-term strategy to improve voluntary compliance. During the six year time frame this initiative can be expected to generate more than $16 billion in additional revenue; the FY 1997 revenues are expected to total $1.5 billion. RPI staffing increases are mainly targeted at call site and service center-based enforcement programs. These activities represent highly cost effective investments and are less intrusive and burdensome than traditional face-to-face enforcement actions.

5. Other

Resource requirements for IRS in FY 1997 include a program increase for the cost of the IRS portion of an audited financial statement in order to meet requirements of the Governmental Management Reform Act of 1994 (P.L. 103-356).

Performance Measures Hierarchy

		FY 1995 Actual	FY 1996 Estimate	FY 1997 Estimate
Mission Measure				
Collect the proper amount of tax revenue at the least cost.	Revenue Collected (Budget + Burden) / Total True Tax Liability	0.7766	0.7826	0.7887
Objective Measures				
Increase Voluntary Compliance	(1) Total Collection Percentage (TCP)	86.0%	86.3%	86.7%
	(2) Total Net Revenue Collected	$1.271 T	$1.358 T	$1.460 T
Maximize Customer Satisfaction	(1) Revenue Collected per Dollar of Burden	$10.97	$11.38	$11.80
	(2) The time expended by taxpayers in fulfilling their tax responsibilities	5.3 Billion Hrs	6.3 Billion Hrs	6.3 Billion Hrs
	(3) Favorability of IRS (Roper Survey)	36%	47%	49%
Achieve Quality-Driven Productivity	(1) Revenue Collected per Dollar of IRS Budget	$172	$185	$181
Multi-functional Measures				
	Total Revenue Protected	$7.6B	$4.14B	$4.16B
	% Tax Payments Paid Timely	97%	97%	97.0%
	Increase in Net Revenue Collected	$88B	$87B	$92B
	PRP average processing time (closed cases in days)			
	District Offices	42.6	40.5	40.5
	Service Centers	26.6	25.5	25.5
	% of PRP Cases Identified	85.6%	86%	86%
	PRP Quality Customer Service Rate (CSR)			
	District Offices	74%	78%	78%
	Service Centers	60%	70%	70%
Budget Activity Measures				
- Submission Processing	Number of primary returns filed (in thousands)	193,150	197,083	199,616
	Number of supplemental documents filed (in thousands)	11,937	12,127	12,580
	Total number of individual refunds issued (in thousands)	88,736	90,610	91,696
	Processing accuracy rate -- paper	94%	94%	94%
	Processing accuracy rate -- ELF	99%	99%	99%
	Refund timeliness -- paper (days)	36	40	40
	Refund timeliness -- ELF (days)	21	21	21
	% Dollar amount of Federal Tax Deposits received electronically	12%	18.4%	36.2%
	% Returns filed on media other paper	8%	10%	11%
	% required individual returns filed	86%	86%	86.2%
- Taxpayer Services	Number of calls answered -- toll-free (including Tele-tax calls)	110.6M	102.7M	102.7M
	TPS tax law accuracy (formerly called technical accuracy)	91%	90%	90%
	TPS account accuracy	91%	91%	91%
	TPS Level of Access(Servicewide measure)	38.6%	41.4%	42%
	Calls answered as % of schedule	.111%	100%	100%
	Initial Contact Resolution (ICR) rate (formerly called One-Stop Contact Rate)	75%	77%	79%
	Taxpayer Contacts/FTE	7,059	6,843	6,843

- Inspection	Number of Internal Audit reports issued	116	110	110
	Number of Internal Audit recommendations to IRS management	682	660	660
	Number of security investigations conducted	9,359	9,458	9,470
	Amount of fines, restitutions, and funds recovered or imposed by judicial order (in thousands)	$6,682	$6,348	$6,356
	Number of prosecutions/Adminstrative actions	1,010	1,001	1,003
- Management Services	% of Employees Trained in Systems Management	8.79%	9.0%	9.1%
	Training FTEs % of Total FTEs - RA	9.0%	6.0%	6.0%
	Training FTEs % of Total FTEs - TA	19.0%	9.0%	9.0%
	% Bargaining Unit Employees Filing Step 2 Grievances	1.7%	1.6%	1.6%
	Absentee Rate	68 Hrs.	67 Hrs.	66 Hrs.
	TQO Certification	74%	100%	100%
- Tax Fraud & Financial Investigation	Fraud Convictions	1,954	1,964	1,932
	Narcotics Convictions	994	921	900
	Indictment Rate	91%	90%	90%
	Publicized Investigations per FTE	0.8	0.7	0.7
	Fraudulent return deletion rate - paper and electronic	78%	80%	86%
	Refund fraud deletion rate - paper and electronic	76%	80%	86%
- Examination	Examination Measures			
	Recommended additional tax and penalties	$28.62B	$23.8B	$23.4B
	Audit coverage	1.63%	1.54%	1.61%
	Cycle Time (Days) RA 1040 Business	307	298	289
	Cycle Time (Days) RA 1040 Nonbusiness	327	317	307
	Cycle Time (Days) RA 1120	375	384	363
	Cycle Time (Days) TA 1040 Business	265	257	249
	Cycle Time (Days) TA 1040 Nonbusiness	215	209	203
	CEP Currency (Open Year Average)	3.2	3.2	3.1
	$/Hour Mean RA 1040	$987	$1,006	$1,036
	$/Hour Mean RA 1120	$1,073	$1,116	$1,149
	$/Hour Mean TA 1040	$817	$850	$876
	$/Hour using Total Adjusted Revenue (TAR)	$6,697	$5,727	$5,900
	% of Agreed and Partially Agreed CEP Examinations	77.5%	78.5%	79.6%
	% Assessed $ Collected Before 2nd Notice	64.2%	66.6%	66.8%
	Appeals Measures			
	Work Units Closed, Non-Docketed	42,513	41,622	43,183
	Work Units Closed, Docketed	22,913	22,436	23,277
	Revenue in Billions of Dollars, Non-Docketed	2,878	2,817	2,924
	Revenue in Billions of Dollars, Docketed	0.616	0.603	0.626
	Agreed Cases, Non-Docketed	35,371	34,630	36,928
	Agreed Cases, Docketed	20,598	20,169	20,926
	Lapse Days, Non-Docketed Under $10 million	243	236	229
	Lapse Days, Non-Docketed $10 million and Over	824	799	776
	Increase % of Appeals Officer direct time	65.6%	68.3%	60.0%

- Chief Counsel	Technical Advice and Service Assistance (Completions)	4,858	4,666	4,666
	Private Letter Rulings and Advance Pricing Agreements (Completions)	3,256	3,060	3,060
	Regulations, Revenue Rulings, and Revenue Procedures (Completions)	611	674	674
	Docketed Tax Litigation Case Closures	28,767	26,180	26,180
	Docketed Tax Litigation Dollars Protected for Closures ($000s)	$2,087,331	$1,943,290	$1,943,290
	Docketed Tax Litigation Cycle Time	564	630	630
	Counsel Bankruptcy -- Closures	$30,515	28,684	28,684
	Counsel Bankruptcy -- Dollars Protected ($000s)	$6,631,486	$6,233,600	$6,233,600
	Counsel Litigation Support -- Criminal Tax Closures	5,617	6,280	6,280
	Counsel Litigation Support -- General Legal Services Closures	3,247	3,062	3,062
	Counsel Litigation Support -- Other General Litigation Closures	46,019	43,268	43,268
	Counsel Litigation Support -- Refund Closures	641	790	790
	Counsel Litigation Support -- Refund Dollars Protected ($000s)	$72,528	$68,176	$68,176
- Employee Plans & Exempt Organizations	EP Determination Cycle Time (Days)	119	180	125
	EO Determination Cycle Time (Days)	84	83.4	83.4
	EP Determination Letter Inventory	54,800	20,000	20,000
- International	Foreign Controlled Corporation Direct Exam FTE	120	81	81
	US Initiated Competent Authority Case Cycle Time (Days)	658	730	730
	Foreign Initiated Competent Authority Case Cycle Time (Days)	597	730	730
	International Enforcement No Change Rate (Days)	22.46%	21.4%	20.4%
- Collection	Collection Yield	$25.1B	$24.9	25.80
	ACS Average Cycles to Dispose TDA/TDI	23.9	23.9	23.4
	CFI Average Cycles to Dispose TDA/TDI	36.7	42.1	41.8
	ACS Level of Service	58%	80%	85%
	ACS Average Hours per Entity Disposition	3.5	3.7	3.5
	CFI Average Hours per Entity Disposition	44.4	49.8	46.8
	ACS $ Collected/FTE	$1,124,000	$1,236,000	$1,060,000
	CFI $ Collected/FTE	$413,000	$438,000	$460,000
- Document Matching	Assessments, Underreporter (Millions)	$1,658	$1,368.3	$1,619.0
	Assessments, Substitute for Return (Millions)	$1,946	$1,291.7	$1,140.0
	Refunds, Underreporter	$120	$95	$125
	Information Returns Received (Millions)	1,052.0	1,154.4	1,139.6
	% of Information Documents Processed	96.68%	96.68%	96.00%
- Resources Management Compliance	Support Services Timeliness Index	100.0	100.0	100.0
	Support Services Cycle Time Index	100.0	105.4	105.4
	Support Services Cost Index	100.0	103.6	103.6
	Support Services Customer Satisfaction Index	100.0	100.0	100.0
	Support Services Quality Index	100.0	100.0	100.0
- TSM Modernized Operational Systems	**FY 1997 Modernization Scheduled Program Accomplishments**			
	FY 1997 MODERNIZATION SCHEDULE The performance measures for the requested investment in tax systems modernization will be provided as part of the report requested in the 1996 appropriations act. The Treasury Secretary will provide this report to the Committees on Appropriations of the House and Senate containing, among four specific requests, a milestone schedule for development and implementation of all projects included in the tax systems modernization program.			

WELCOME TO GUESTS FROM RUSSIAN DUMA

Senator SHELBY. I would like to take a few seconds and welcome a group of parliamentary committee staff from the Russian Duma and the Federation Council that have joined with us today. In the Russian Parliament the committees, I understand, have no hearings like we are doing today. Our Russian counterparts are observing how the Congress operates. I hope they will get something out of the meeting, and we certainly welcome for joining us today.

Senator Kerrey, do you have an opening statement?

Senator KERREY. I do not, Mr. Chairman.

PRIVATE COLLECTION PILOT PROGRAM

Senator SHELBY. Commissioner Richardson, I have a number of questions, and I will try to share my time with Senator Kerrey.

The committee provided funding in the fiscal year 1996 bill for a private collection initiative targeted at accounts the IRS had designated as noncollectible. Commissioner, as you know, I am very interested in this effort. I would like to review your actions today. What are IRS's specific plans for the private debt-collection pilot? What is the timeframe, and what type of cases is IRS planning to offer private collectors?

Ms. RICHARDSON. Well, as you know, Mr. Chairman, we put out the request for proposals in March. April 12, as I mentioned earlier, was the date that the bids were due in. We are in the middle of an ongoing competitive procurement, so we are somewhat limited about what we can say specifically, based on what our lawyers have told us, and we certainly cannot tell you how many people have bid.

Senator SHELBY. Well, can you say here, and if you cannot, do not, can you tell us what you are going to use to evaluate the performance of private collectors?

Ms. RICHARDSON. Yes; certainly. I know we had talked earlier about your concerns that we continue to adhere to the taxpayer bill of rights, and that we also be careful that we do not evaluate people on the percentage of money they collect, which is something that we do not do for our own employees.

I am going to ask Mr. Donelson if he would like to tell you a little bit about how we came up with our performance-based evaluation system.

Senator SHELBY. Go ahead, Mr. Donelson.

Mr. DONELSON. Mr. Chairman, we have established criteria for the debt collectors, the contract recipients, to perform under the same restrictions that we expect of our own employees in terms of disclosure rules, privacy of the taxpayers' information, taxpayer bill of rights, and all the other restrictions that protect taxpayers.

We also have asked the private debt collectors to do a clearance process so that the employees they hire to do this work will be measured against the same type of strict hiring practices that we would have. In other words, people who have a prior criminal history would not be allowed to work on these cases. And we have rather strict penalties in place in the contract—or in the RFP, rather—that would hold the contracting companies to a high standard in terms of forfeiting any moneys that they earned in this process

if they have a high number of complaints lodged by taxpayers, in order to protect them against any wrongdoing or mistreatment by the contractors. Just as we would hold our own people to a high standard and discipline them, we would not want to be paying somebody to collect our debts and then have them run roughshod over taxpayers.

Senator SHELBY. Would you hold something against them if complaints were made? Would you not have to determine if those complaints had any validity?

Mr. DONELSON. Absolutely.

Senator SHELBY. Not just the naked complaint.

Mr. DONELSON. It is the complaints as well as the investigation to justify, and our own inspection service would adjudicate those.

Senator SHELBY. Are you looking into what are some of the best practices that make private collectors work, and make them efficient?

Mr. DONELSON. Yes; over the years we have looked at that. As a matter of fact, we are installing a technology in our Buffalo office that is called a predictive dialer. A predictive dialer basically is a computerized method to contact taxpayers and have them available for our telephone collectors to deal with them. Private collectors have used this technology for years, and we have learned from them, and we have now installed that on a pilot basis in our Buffalo office. That is just one example of many.

We also redesigned all of our collection notices, and we are testing those in the Philadelphia Service Center, going from 4-, 5-, 6-page notices down to a 1-page very clear, succinct notice; we think it will give very good results.

Ms. RICHARDSON. We also have shortened the notice cycle and reduced the number of notices, because one of the things that we do know—and have learned from the private sector—is that the sooner we can reach somebody the more likely they are to pay.

Senator SHELBY. Commissioner, I notice that there is no funding request in the fiscal year 1997 budget for the continuation or perhaps the expansion of this collection program. Some of us believe that the pilot program can prove very successful. How will this apparent—and I read—lack of commitment at the IRS affect this activity? In other words, here it is June coming up a few weeks from now, 2 or 3. This fiscal year we were talking about runs out at the end of September. There is nothing in your request for the next year. It seems like you are not committed to this.

Ms. RICHARDSON. Well, we are certainly committed to it, and have moved as quickly as we could under the current procurement process. We anticipate that contracts will be let in the early part of the summer, and that we have a 1-year renewable option in effect, so we would plan to renew the pilot for a second year, if everything warrants it.

Senator SHELBY. Well, why do you ask for money for it?

Ms. RICHARDSON. I do not know that we have spent all of the money that we are allocated this year yet because of the procurement process that we have undertaken. And I think that when we provided you with the timetable we indicated to you that we would do it as aggressively as we could within those rules. Hopefully, we

will be able to let the contract this summer; but it is a 1-year process after that.

Senator SHELBY. You know, we have heard some comments and concerns that the RFP is overly complex, and it is difficult to determine how to respond to the proposal adequately. Mr. Donelson, you are in charge of this, are you not?

Mr. DONELSON. Yes, sir.

Senator SHELBY. How are you responding to these concerns and comments in the private sector? Is the IRS considering clarifying the proposal, or do you believe it is important that the proposal go forward as quickly as possible, and does uncertainty about the requirement, once they are put out, of the proposal tend to delay the process itself?

Mr. DONELSON. Mr. Chairman, we have had a very heavy activity, very high-level activity, in response to the RFP, and it does not seem to discourage anybody from putting a bid on the contract. That is one indication.

We have also heard the same concerns, and there is a period of time in the RFP process that allows for negotiations to occur. We are engaged in that state of the process in the very immediate future. I think that is about to begin, as a matter of fact. We will hear from people who have been on those contracts, and we will take their concerns into consideration.

At an earlier hearing before the House, before Chairman Johnson, I testified that we had had a high level of interest in that, and it was a very active interest by the collecting community.

Ms. RICHARDSON. One thing we did in response to some early concerns was amend our original request for proposals and extend the date. So, we are trying to be responsive and also to make it a fair test of what we can do versus what the private sector can do.

Senator SHELBY. Well, I think it has to be a fair test.

Ms. RICHARDSON. Absolutely.

TAX ACCOUNTS RECEIVABLE

Senator SHELBY. In your March 6, 1996, testimony, Commissioner, before the Subcommittee on Government Management, Information, and Technology to the House Committee on Government Reform and Oversight, you provided a limited breakdown of the $200 billion in tax debts on your books at the end of the fiscal year 1995. You stated that almost $89 billion was in your active inventory. The question is, Are all of these valid financial receivables—are they all valid financial receivables, or do they include some compliance assessment?

Ms. RICHARDSON. I am going to ask our chief financial officer to explain exactly how we get to some of those numbers.

Senator SHELBY. Go ahead.

Mr. MUSICK. For the purposes that the $89 billion is broken down into, we have identified approximately $66 billion as accounts receivable or financially receivable.

Senator SHELBY. Would you provide this for the committee, the breakdown?

Mr. MUSICK. Yes; we can provide the breakdown.

[See charts following page 310]

COMPOSITION OF RECEIVABLES

Senator SHELBY. Go ahead. How much?

Mr. MUSICK. $66 billion.

Senator SHELBY. $66 billion, that is quite a bit of money. $66 billion.

Mr. MUSICK. That is right. And $31 or $32 billion were compliance assessments, and about $10 or $9 billion were what we call financial writeoffs, folks that we know we are not going to collect, deceased people, defunct corporations.

Senator SHELBY. You have got to try, though, have you not?

Mr. MUSICK. Well, we will.

Senator SHELBY. Try again.

Mr. MUSICK. And I can give you that breakdown.

Ms. RICHARDSON. We actually have some good charts, also, that I think probably explain better than any narrative.

Senator SHELBY. Would you submit those for the record and let us look at them?

Ms. RICHARDSON. Absolutely.

Senator SHELBY. Mr. Musick, would you also provide for the committee a similar breakdown of the $111 billion that is not in the active inventory? Is that stuff you have written off or packed away?

Mr. MUSICK. I think most of that is mainly currently noncollectible, but we can provide the breakdown.

[The information follows:]

Accounts Receivable Dollar Inventory Stratified by Financial Components and by Active Inventory and Currently not Collectible
(Dollars in Billions)

	Inactive	Deferred	Installment	TDA	Notice	Current	Other	NMF	Total Active	CNC	Totals
Gross	$18.88	$1.58	$12.21	$43.03	$16.11	$2.84	$6.67	$4.07	$107.40	$93.47	$200.86
Financial	$13.96	$1.38	$11.27	$23.08	$8.30	$2.84	$4.33	$0.79	$65.95	$46.80	$112.75
Financial Writeoffs (1)	$0.57	$0	$0	$1.42	$6.52	$0.00	$1.03	$0.00	$9.54	$15.66	$25.20
Compliance (2)	$4.35	$0.20	$0.94	$18.53	$3.29	$0.00	$1.31	$3.29	$31.91	$31.01	$62.91

Footnotes:
(1) RTC amounts included in Financial Writeoffs by major status

	$0.57	$0.00	$0.00	$1.42	$6.52	$0.00	$1.03	$0.00	$9.54	$8.32

(2) TFR amounts included in Compliance Assessments by major status

	$2.06	$0.00	$0.94	$5.00	$0.44	$0.00	$0.26	$0.00	$8.69	$8.29
Compliance Definition	$16.25	$1.58	$11.27	$36.81	$11.16	$2.84	$5.38	$4.08	$89.17 (3)	$87.18 (4)

Footnotes:
(3) We previously reported the total active inventory as $88.8 billion in prior testimony. The difference is due to end of year adjustments made for auditing purposes. This included adding NMF accruals and additional failed Savings and Loan assessments provided by the RTC that were not included in the September ending management information reports. The additional RTC assessments appear in the Notice category.

(4) We previously reported the total CNC inventory as $87.4 billion in prior testimony. This difference is due to end of year adjustments made for auditing purposes. This included moving $200 million from NMF CNC that was reported incorrectly in the September ending management information reports.

Key to Acronyms:

CNC	Currently Not Collectible
NMF	Non-Masterfile
RTC	Resolution Trust Corporation
TDA	Taxpayer Delinquency Account
TFR	Trust Fund Recovery penalty

- Active Accounts Receivable -- are accounts that are potentially collectible and that continue to be pursued through activities ranging from notices and telephone contacts, to installment agreements and offers-in-compromise, and, ultimately, liens, levies and seizures. This amount is made up of the following components:

  - Inactive is cases either awaiting adjudication by a court including bankruptcy or under investigation for acceptance of an offer-in-compromise;

  - Deferred is lower value cases that will be collected through systemic monitoring, such as refund offsets and yearly notices to taxpayers.

  - Installment is cases being collected through installment agreements;

  - TDA is the largest portion of the active accounts, that have been assigned for enforcement action;

  - Notice is cases currently being collected by sending notices to taxpayers;

  - Current is closely held estate cases being collected through 14 year installment agreements;

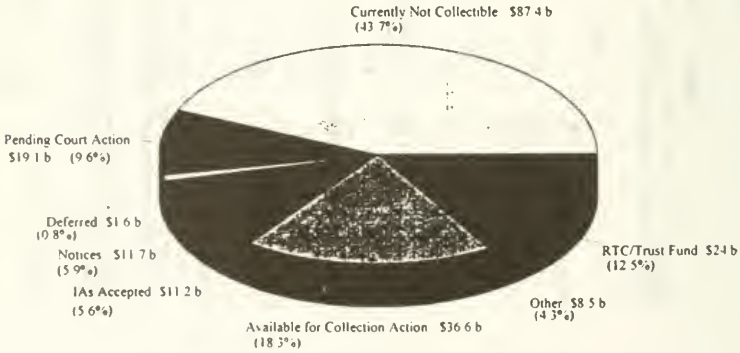
  - Other is cases awaiting some type of adjustment action based on taxpayer correspondence or identified error; and

  - NMF is non masterfile cases currently being collected which are maintained separately from the masterfile cases;

- Currently Not Collectible (CNC) are accounts that a collection employee has determined a taxpayer cannot currently pay. We periodically monitor accounts in this category, and if a taxpayer is able to pay within the statutory 10-year period, the account will be collected.

Gross ARDI

FY 95 -- $200 billion



Senator SHELBY. But if we could collect $10 or $20 billion of it, it would be worth going after, would it not?

Mr. MUSICK. Yes, indeed.

Senator SHELBY. Obviously, you believe they are not collectible, but what if they prove otherwise? Would you be surprised?

Ms. RICHARDSON. I think this is really a question for Mr. Donelson.

Mr. DONELSON. Yes, Mr. Chairman, we do collect a lot of money while they are in uncollectible status.

Senator SHELBY. I know you collect a lot, but this is a lot to forget, though.

Mr. DONELSON. No; there is a 10-year statute, as the Commissioner said in her opening remarks, and we do collect money while we have got it in an uncollectible status. Let me explain how that happens.

We file a Federal tax lien before we write these taxes off and put it into an uncollectible status, and if a taxpayer has assets we have not been able to uncover during the investigation and the taxpayer looks to have that lien released, for example, we will get contacted and we will release that lien in exchange for the money that the taxpayer owes us. There are a number of taxpayers who will file in a subsequent year and have a refund coming to them, and our system automatically offsets that refund, and we collect a large amount of the uncollectible money over the period of the 10-year statute.

It is not that it goes onto a shelf and stays there and just grows interest. It is collected, and it is an ever-revolving amount of money.

Senator SHELBY. In other words, you are not saying to the committee that these are debts that you have forgotten about and were closed off.

Mr. DONELSON. Absolutely not.

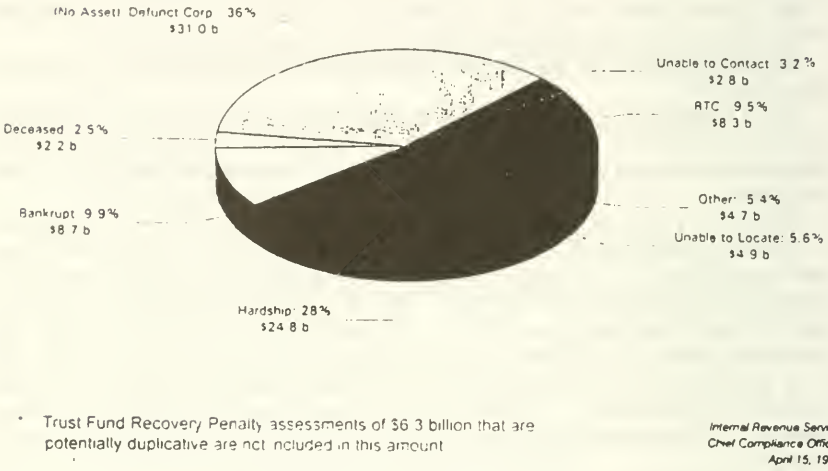
Senator SHELBY. It is a continuous process.

Mr. DONELSON. We use the term currently not collectible because when we investigate a case we may find a taxpayer who has either been through some tough financial times, has been sick, lost his job, et cetera, and as time goes on, he gets back on his feet, he files a subsequent return, we find out he got a better financial situation because we see from his adjusted gross income and his income picture changes, we reissue those cases and investigate them again. And oftentimes a taxpayer will come forward and tell us, I am back on my feet now, I want to get rid of this tax debt, and they will start the dialog with us.

These moneys are not investigated once and written off for life. These are alive in an ever-revolving amount of money to the 10-year statute.

Ms. RICHARDSON. The other thing we can provide you is a chart that breaks out the currently noncollectible. I think it gives a very good picture of what can ultimately be collected and where we have defunct corporations, bankruptcies, deceased taxpayers, that we are required by law to keep those debts on the books, but they will not be collected. So we will provide that, sir.

[The information follows:]



ERRONEOUS ASSESSMENTS

Senator SHELBY. On March 6, last year, Commissioner, in your testimony you also mentioned efforts you have underway that have eliminated $276 billion of erroneous assessment from becoming part of the inventory over the past 2 years. You mentioned that the erroneous posting of tax payments is a problem. Can you tell the subcommittee what underlying problems cause erroneous assessments and what efforts IRS has underway to correct those underlying problems? Mr. Dolan, do you want to take that?

Mr. DOLAN. I would like to take a crack at that, Mr. Chairman. That goes back about 4 years when I think one of the things that we identified was that part of the problem with our accounts receivable is it was both overstated and we were burdening the taxpayer by generating, in a sense, artificial notices because what had failed to occur was some—either a posting had not been done properly or some other underlying processing cause had generated what turned out to not be a valid account receivable.

We have installed across our service centers a review process now that has been pretty effective in weeding those out. They therefore do not go on the books as an account receivable, and they also do not end up burdening the taxpayer to either call us or correspond with us and tell us if they are not a valid account receivable.

FINANCIAL STATUS AUDITS

Senator SHELBY. Commissioner, shifting to a little different area, it is my understanding that the IRS is utilizing what you call financial status audit techniques formerly known as economic reality audits, in which the IRS seeks information about a taxpayer's lifestyle, about where and how a taxpayer spends his or her money, and asking questions like the following: What is your educational background? Where do your children go to school? Where did you go on vacation? How much did you spend? Do you have a safe deposit box? Where? What is in it?

I guess I want to ask you this, because I have a lot of complaints from people. When is it appropriate, Commissioner, for the IRS to use financial status techniques in auditing a taxpayer, and should there not at least be a suspicion of unreported income before they are undertaken?

Ms. RICHARDSON. There absolutely should be, Mr. Chairman, and those are the standing instructions to our revenue agents. I will be happy to provide you a memo I think was sent in March to reaffirm that from our Assistant Commissioner/Examination.

[The information follows:]

MEMORANDUM FOR REGIONAL CHIEF COMPLIANCE OFFICERS

MAY 8, 1996.

From: Thomas W. Wilson, Jr., Acting Assistant Commissioner (Examination)
Subject: Financial Status Analysis Audit Techniques

On March 25, 1996, I sent you a memorandum regarding the Use of Financial Status Audit Techniques. Attached was a copy of the Opening Statement by Rep. Nancy L. Johnson to her amendment to H.R. 2337, the Taxpayer Bill of Rights 2. My memorandum requested that you share it with your field executives and examination personnel.

The purpose of this memorandum is to ensure that meaningful discussions of the topic are being held. Therefore, I am requesting that each district director ensure that discussions are held and documented as to date and attendees. I realize that some managers have already done this. The documentation may be maintained at the level of the Chief, Examination Division. While not requesting that you submit this information to my office, I do request that discussions are completed by May 31, 1996.

Please do not view this as a mandate to cease using Financial Status Audit Techniques. There are many situations the techniques should and must be used. My goal is to ensure that all affected personnel are aware of appropriate circumstances for use of the technique.

If there are any questions, please call me at (202) 622–4400 or Andre Re, National Director, Compliance Specialization, at (202) 401–4246.

MEMORANDUM FOR REGIONAL CHIEF COMPLIANCE OFFICERS

MARCH 25, 1996.

From: Thomas W. Wilson, Jr., Acting Assistant Commissioner (Examination)
Subject: Use of Financial Status Analysis Audit Techniques

On February 5, 1996, I along with members of my staff met with representatives from the AICPA. Once again, they expressed their concerns regarding the use of financial status analysis audit techniques. The concerns expressed were as follows:

—Instances where Form 4822 (Personal Living Expenses) was sent with the initial contact letter;
—Examiners arriving unannounced to inspect a personal residence;
—Examiners bypassing a valid power of attorney and requesting information or records directly from the taxpayer;
—Examiners demanding to interview the taxpayer without the presence of their representative; and,

—Examiners requiring the taxpayer's representative to submit a freedom of information request to obtain our third party documents on their taxpayers.

Even though prior memorandums have been issued on this subject, I once again want to stress the purpose and appropriate use of these audit techniques. It is imperative that all executives, managers and examination personnel understand the purpose of these techniques and use them appropriately.

A quality examination is more than just verifying the items deducted on the tax return. The recent initiative to improve the quality of our examinations was based on several studies (an Internal Audit Report dated May 18, 1992, and a Boston District process analysis of the auditing standards) which revealed that inadequate tests for unreported income were being conducted by our examiners. There were instances where taxpayers showed little or negative income on the return (sometimes several years of returns) but acquired substantial assets and examiners did not question how these assets were acquired. The detection of unreported income is essential in performing quality examinations; in ensuring that the tax system is fair and equitable for all taxpayers, and in addressing a significant portion of the tax gap (an estimated $62 billion of the $127 billion income tax gap is attributable to unreported income).

For the average wage earner, the IRS is able to verify virtually all income and most deductions by matching information returns (Forms W–2 and 1099) with the individual income tax return. Thus, these audit techniques are generally not appropriate in an examination of a wage earner unless there is an indication of income not subject to information reporting.

Fair and equitable treatment of wage earners and non-wage earners necessitates that during an examination we will ensure that income and deductions reported by businesses and the self-employed are substantially correct. However, examiners are not to assume that an audit of a business or self-employed taxpayer automatically means that there is unreported income and therefore use indepth income probes on every audit.

Examiners must evaluate the facts and circumstances of each case and apply judgment. It is not an efficient use of resources to have examiners perform in-depth income probes and ask questions about personal assets and personal expenditures when there is no reasonable indication of unreported income. The more indepth probes should only be employed when there is a reasonable indication of unreported income. For example, when the taxpayer has a double entry set of books, strong internal controls, and there is no other information that would indicate income is unreported, limited income probes, such as interviewing the taxpayer, to conclude the examination should be used. When internal controls are weak, the return reflects high asset accumulation but very little income or losses reported from the business and/or the business is primarily conducted in cash, sound auditing principles require that more indepth probes be conducted to verify gross receipts.

These techniques are not new, nor is our emphasis on proper use of these techniques. The Internal Revenue Manual from 1962 states: "The revenue agent at this phase of the examination (initial interview income probe) should attempt to secure from his conversation with the taxpayer, sufficient facts which will enable him to survey the over-all financial picture of the taxpayer. The examining officer should then be in a position to see if the taxable income reported bears a relationship to the taxpayer's net worth and manner of living." This does not translate to automatically sending a Form 4822 with the appointment letter.

When there is a reasonable indication of unreported income, the examiner should tell the representative and/or taxpayer that there appears to be a problem regarding income and give them an opportunity to explain and/or resolve any discrepancies. They should also be given documents which are part of our system of records without filing an FOIA request.

IRS personnel are expected to respect an authorized power of attorney. It is not appropriate to automatically assume that a POA is there to shield the taxpayer. In fact, examiners are to assume that a POA can provide the necessary information until they demonstrate otherwise. It is perfectly acceptable to request that the taxpayer appear with the representative—examiners should remember that the taxpayer does not have to appear. While there are procedures for by-passing an uncooperative representative, this should not be done routinely or simply to interview the taxpayer.

Data from the Denver District Process Analysis Team reflects that working with the representative and taxpayer reduces cycle time which benefits both the IRS and taxpayers. Where the examiner works with the taxpayer only, cycle time was 115 days; with the taxpayer and representative together, cycle time was 105 days and with the representative only, cycle time was 260 days.

When used appropriately, financial status analysis audit techniques are successful. For example, in a sample of 27 cases (involving 65 tax years), examiners found understatements of taxable income averaging over $180,000. In one instance, a return prepared for the IRS had negative taxable income of $7,000 and a second return prepared for a financial institution had $70,000 of taxable income.

Proper use of these techniques requires sound judgment and professionalism from all examination personnel. I encourage you to discuss this issue with your local practitioners and with field personnel. My office is in the process of revising the Internal Revenue Manual. Please share this memorandum with your field executives and examination personnel.

On March 21, 1996, the House Ways and Means Committee held a session to "mark-up" H.R. 2337, The Taxpayer Bill of Rights 2 legislation. Attached is the opening statement of Representative Nancy L. Johnson, Chairman of our Ways and Means Oversight Subcommittee, regarding financial status auditing techniques.

If you have any questions concerning this matter, please call me.

Attachment.

OPENING STATEMENT BY REP. NANCY L. JOHNSON, AMENDMENT IN THE NATURE OF A SUBSTITUTE TO H.R. 2337, THE TAXPAYER BILL OF RIGHTS 2

Mr. Chairman, this amendment in the nature of a substitute contains minor revisions to H.R. 2337, the bill Mr. Matsui and I introduced last September to reflect the Subcommittee on Oversight's recommendations to the full Committee for a "Taxpayer Bill of Rights 2."

I was also going to offer an amendment to require the IRS to issue guidelines clarifying the circumstances under which financial status auditing techniques (formerly known as "economic reality" or "lifestyle audits") are appropriate for use in a tax audit.

In recent years, as part of its "Compliance 2000" initiative, the IRS has stepped up its efforts to probe for unreported income, particularly in the case of small businesses and taxpayers with Schedule C income.

I think we would all agree that the IRS's efforts to improve compliance with our nation's tax laws is a very important undertaking. To the extent that some taxpayers fail to pay the taxes they legitimately owe, it increases the burden on the millions of honest taxpayers who comply each year with their income tax responsibilities. However, some of the methods the IRS has been using to detect noncompliance are extremely intrusive and burdensome, and should only be used in appropriate cases.

Last year, the IRS instituted a new training course for its examiners emphasizing the use of "financial status" auditing techniques—techniques which have long been in the Internal Revenue Manual—but which the IRS believed weren't been applied in all circumstances in which they were warranted.

Traditional audits focus on books, records and other evidence directly related to the tax return and its preparation. Financial status auditing, on the other hand, is the process through which an agent audits the taxpayer's lifestyle, rather than just the four corners of the taxpayer's return. Using indirect as well as traditional audit methods, the auditor attempts to create an economic profile of the taxpayer to determine if the amount of income reported on the return is consistent with the taxpayer's living Standard.

While these types of probes for unreported income are certainly justified where the auditor has a reasonable basis to believe that fraud exists, concerns have been raised in the media and by practitioner groups that some IRS auditors are routinely using financial status techniques *from the very beginning of a tax audit in all circumstances.*

For example, some auditors are asking taxpayers at the beginning of an audit to complete a Form 4822 (a Statement of Annual Estimated Personal and Family Expenses), which breaks down the taxpayer's cost of living. AICPA and other practitioner groups are also concerned that some agents are attempting to exclude a taxpayer's CPA from the audit process, instead pressuring taxpayers to submit to "face-to-face" interviews without their CPA's present.

Using these types of intrusive methods in all tax audits is unacceptable. Not only are they extremely burdensome to the taxpayers whose returns are being examined, but they are also very costly for the IRS. My amendment would have required IRS to issue guidance to the field emphasizing the limited circumstances under which these types of probes for unreported income should be employed.

However, I have received assurances from IRS senior executives that they, too, share my concerns about the overuse of these techniques. The training materials

that were used last year are being revised, and the Commissioner has personally assured me that the IRS will be issuing guidance to its examination staff in the very near future which will emphasize the points that were outlined in my amendment, so I will not offer it today. IRS senior executives have been very responsive to my concerns and I compliment them for their cooperation in moving forward to resolve this problem.

I also want to compliment the IRS for taking the initiative this January to implement several of the provisions in the Taxpayer Bill of Rights 2 by administration action. This effort reflects the IRS's commitment to improving the way which they serve their customers.

The Taxpayer Bill of Rights 2 contains many important new procedural protections for taxpayers in their dealings with the IRS, and I encourage your support of this amendment.

GOOD AUDITING PRACTICES

Ms. RICHARDSON. I have, on every occasion that I have had to speak to our employees, and I think Mr. Donelson and Mr. Dolan, as well, have emphasized that it is only——

Senator SHELBY. I can understand where you are getting into questionable circumstances.

Ms. RICHARDSON. Absolutely.

Senator SHELBY. But into an ordinary audit, I would think you are getting into a lot of privacy areas.

Ms. RICHARDSON. One of the things that has been very interesting is that at least since 1963 we have had in our manual instructions that where it appears there might be unreported income good auditing practices would suggest that further inquiry be made. It is clearly not appropriate in every case, but I think any CPA or auditor worth his or her salt would ask questions in appropriate circumstances, whether they work for us or for anyone else.

Senator SHELBY. Well, CPA's have complained all over the country about your tactics.

Ms. RICHARDSON. I am aware of that. And we have again asked the AICPA for specific instances of abuses and situations where we have inappropriately used that. We are still actually waiting to hear, because obviously you cannot address a problem unless you know where it is. But I think we have certainly made it very clear to our folks, and we will continue to repeat that.

Senator SHELBY. You did this in a memo, but do you have official guidelines that have been posted? You said something about a memo, and if you do, would you furnish us a copy of the guidelines?

Ms. RICHARDSON. I will provide that to you, as well.

Senator SHELBY. Do you have guidelines? Have you posted guidelines, or just a memo?

Ms. RICHARDSON. The revised guidelines are still in draft form, but we will get those to you.

Senator SHELBY. When you say revised guidelines, regarding these kinds of questions that you are asking people at times, which a lot of people are complaining about, do you have official guidelines at present regarding that, or do you just have a memo? Two different things.

Mr. DOLAN. Actually, we have a memorandum, but we did that in order to get to every frontline agent while the manual was being reissued.

Senator SHELBY. What is the date of that memo?

Ms. RICHARDSON. It was March 25, I believe?

Senator SHELBY. Of this year?

Ms. RICHARDSON. Of this year. It is sometime in March. I will get a copy of that to you.

Senator SHELBY. When do you think you will come forth with the guidelines?

Ms. RICHARDSON. The revision to our Internal Revenue Manual [IRM] guidelines has been shared with the AICPA and IRS field offices for comment. We have received comments from the AICPA and are awaiting comments from the field offices. Upon receipt of all comments, appropriate changes will be made to the revised IRM.

Senator SHELBY. Commissioner, is the IRS conducting these techniques without notifying the taxpayer of the right to representation under the 1988 taxpayer bill of rights?

Ms. RICHARDSON. They should not be. I guess I would be remiss if I told you it never happens.

Senator SHELBY. If they are, it would be an error, is that not right?

Ms. RICHARDSON. If they are, it would be a violation of our rules.

Senator SHELBY. And in the guidelines that you are going to bring forth, are you going to remind your agents of the taxpayer bill of rights?

Ms. RICHARDSON. We certainly will.

FORM 4822

Senator SHELBY. How frequently, then, and in what circumstances are taxpayers being requested to fill out Form 4822, which is a statement of annual estimated personal family expenses?

Ms. RICHARDSON. That, I would have to give you for the record.

Senator SHELBY. Would you furnish that for the record?

Ms. RICHARDSON. Yes.

[The information follows:]

It is not an efficient use of resources to have examiners perform indepth income probes and ask questions about personal assets and personal expenditures when there is no reasonable indication of unreported income. When internal controls are weak, the return reflects high asset accumulation but very little income or losses reported from the business and/or the business is primarily conducted in cash, sound auditing principles require that more indepth income probes be conducted to verify gross receipts. The more indepth probes include indirect methods of determining income, such as cash flow transactions, bank deposits, source and application of funds, and net worth. These indirect methods require a determination of the monies spent for personal assets and support of the family. Our intent is to arrive at the best determination of monies spent for these items. We believe that this can best be done with the taxpayer's involvement; either by asking the taxpayer to complete a Form 4822 or with questions being asked by the examiner.

Senator SHELBY. Does not the IRS lack the authority under the law to require a taxpayer to fill out these forms at the present time?

Ms. RICHARDSON. I guess I would like to consult with my counsel.

Senator SHELBY. You are counsel.

Ms. RICHARDSON. I do not know that I can answer that question today, but I assume that we do not believe that or we would not be asking taxpayers to do it.

Senator SHELBY. In other words, you are saying that you basically believe, or it is the policy of the IRS, that you have the authority to ask these questions?

Ms. RICHARDSON. In the appropriate circumstances.

Senator SHELBY. And what would you say the appropriate circumstances are?

Ms. RICHARDSON. Where we have some reason to believe there may be unreported income or underreported income.

Senator SHELBY. But not a routine audit?

Ms. RICHARDSON. No.

Senator SHELBY. Not a routine audit, which is most obvious?

Mr. DOLAN. Mr. Chairman?

Senator SHELBY. Yes, Mr. Dolan.

Mr. DOLAN. If I could add just an element, this is something we have been working on with the practitioner associations for well over a year. Last summer, between the Commissioner and I, we visited every one of their national meetings. This was an item that was on the agenda then. Actually, we had a liaison meeting with each and every one of them last fall. We brought to the table actual copies, sanitized versions of what it is that we were concerned about in terms of—not the wage earner whose income is largely accompanied by information documents—but somebody who is in a cash-based business, had questionable or multiple sets of books and records. We detailed where it is that we were trying to encourage our agents——

Senator SHELBY. Well, we want you to do your job. I have to say this, the committee, and I think everybody in the Congress, wants you to do your job. But we do not want you to abuse innocent people, small business people, in trying to do your job. And they are two different things.

Mr. DOLAN. I could not agree with you more, sir, and the only thing I was trying to suggest is that we have worked hard to gather the feedback, particularly from the groups like the AICPA, and meet them at a substantive level and respond with as much fact as we possibly could, so that we do make it clear what we are trying to do and not do.

Senator SHELBY. If IRS does not have the authority, and I do not think you do, to do this, are taxpayers being informed of their right to refuse to fill out these forms when they are confronted with this? In other words, if X and Y, you were auditing their return, it was a partnership or whatever it was, do you tell them they do not have to do this? Do they know it by law? If you tell them what their rights are under the taxpayers bill of rights they would know, would they not?

Mr. DOLAN. Yes; but Mr. Chairman, you are raising an issue that I do not think any of us has been necessarily—as we sit here today we do not know that there is a controversy alive about filling out that form. That would be one technique.

Senator SHELBY. Oh, there is a controversy about it or we would not be hearing from people all over the country.

Mr. DOLAN. I am not saying there is not, I am just saying that the actual introduction of the issue of the form, and what we legally do or do not do, I would like to get back to you with some additional information on that.

Senator SHELBY. And I would like to have it for the record.

[The information follows:]

A taxpayer does not have to complete Form 4822 or answer an agent's questions, including those being asked to determine monies expended for personal assets and support. In this situation, agents will arrive at a determination based on the records provided by the taxpayer. Our objective is not be intrusive or intimidating but to arrive at the best estimate of monies spent for personal assets and support.

Senator SHELBY. Is IRS utilizing techniques using techniques primarily in auditing these types of techniques in small business and self-employed taxpayers? You mentioned the wage earners.

Mr. DOLAN. I think it would be largely—I would rather characterize it as being a more cash-based environment.

Senator SHELBY. Would you get us that information?

Mr. DOLAN. Certainly.

[The information follows:]

For the average wage earner, the IRS is able to verify virtually all income and most deductions by matching information returns (Forms W–2 and 1099) with the individual income tax return. Thus, financial status analysis auditing techniques are generally not appropriate in an examination of a wage earner unless there is an indication of income not subject to information reporting. Fair and equitable treatment of wage earners and non-wage earners necessitates that during an examination we will ensure that income and deductions reported by businesses and the self-employed are substantially correct. However, examiners are not to assume that an audit of a business or self-employed taxpayer automatically means that there is unreported income and therefore use in-depth income probes on every audit.

Senator SHELBY. Are these audit techniques that we are talking about being used as part of any compliance measurement programs where taxpayers are picked at random for audit?

Mr. DOLAN. They are used as a part of what would be our normal case assignment practices, which are not random in the sense that people talk about the tax compliance measurement program. It is not that kind of randomness.

Senator SHELBY. They are not random done.

Mr. DOLAN. It is a result of our audit selection processes.

Senator SHELBY. Commissioner, are you saying to the committee that you are going to make sure that in the guidelines that you published that the people who work for the IRS are aware and need to inform the people that they are auditing of their bill rights, taxpayer bill of rights?

Ms. RICHARDSON. Absolutely. And I will personally make sure that that is in the guidelines. The revision to the IRM guidelines is currently in draft form and has been shared with the AICPA and IRS field offices for comment. Once comments have been received, the draft will be finalized. We will share a copy of the final guidelines with the committee.

Senator SHELBY. Senator Kerrey, I am going to give you a shot for a few minutes, I want to be fair. Then I will come back. Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman.

Commissioner Richardson, some taxpayers will say to me we spent $2.3 billion in 1979, and we are going to spend $7.99 billion, almost $8 billion in 1997 for IRS operations. What happened in that 15-year period to triple the IRS budgets?

Ms. RICHARDSON. I can actually give you specific information about the number of returns that we process today versus that in

1979, the amount of money we collect, the number of taxpayers we serve.

COMPLIANCE RATE

Senator KERREY. Well, what is interesting to me is you cite very often the Roper Survey as a basis for people being satisfied with the IRS, and in 1984 according to the Roper Survey 60 percent of the people were satisfied with the IRS, and in 1995 that number is down to 36 percent. That is below the CIA and the EPA and other agencies that one would presume to be lower. And I understand voluntary compliance from last year to this has dropped from 86.3 percent down to 82.9 percent.

Ms. RICHARDSON. I do not believe that to be correct.

Senator KERREY. Voluntary compliance is not down from 86.3 percent last year?

Mr. DOLAN. That actually sounds, Senator, like there may be two components there being cited as if they were comparable. We typically distinguish the part——

Senator KERREY. Well, as I have been told 86 percent of U.S. taxes are paid voluntarily, and 3.5 percent are collected annually through enforcement action. Is that not right?

Ms. RICHARDSON. It is about 83 percent that we estimate come in voluntarily, and another 3 to 3.5 percent through the enforcement activities. So the 86 to 87 percent is a result of both voluntary compliance and our——

Senator KERREY. I understand. In 1995—earlier when I asked the question you said the number was wrong. In 1996, it was 86.3 percent, and I understand that now it is down to 82.9 percent. Is that wrong?

Ms. RICHARDSON. No; I think that the numbers are the 86.5 or 86 percent, 87 percent, is a combination of both our voluntary compliance, which is 82 to 83 percent, and the results of our enforcement activities, which yield another 3 or 3.5 percent. So the compliance level has hovered about at the same level, we estimate, for the past 20 years.

Senator KERREY. You are saying that the compliance level has always been 82.9 percent plus another 3.5 percent or so of collection?

Ms. RICHARDSON. Since we have had fairly accurate ways to measure it, it has been about at that level. And we can give you a year-to-year breakdown for the record if you would like.

Senator KERREY. Well, my understanding was you were going to try to get to 90 percent compliance by 2001, and you are saying that from last year to this year compliance is flat, there has been no change at all? There has been no decline in the voluntary compliance?

Ms. RICHARDSON. We believe that it may have gone up a little bit, but we do not have a particularly precise way to measure it at this time. But we do hope to move it another 3 or 3.5 percent by the end of the decade.

Senator KERREY. So you are looking at $1,450,000,000,000 of collections, both voluntary and through compliance efforts, and about $200 billion uncollected, three-fourths of which is individual and one-forth is corporate? Is that the lay of the land, essentially?

Mr. DOLAN. Roughly.

Ms. RICHARDSON. Roughly. In fiscal year 1995, taxpayers voluntarily reported and paid gross tax receipts of $1.375 trillion—net tax receipts (gross less refunds) were $1.25 trillion. The IRS collected an additional $30 billion as a result of its enforcement efforts.

PUBLIC OPINION OF IRS

Senator KERREY. How do you explain the decline in the public's evaluation and the Roper evaluation from 60 percent—let me see what the category is here—60 percent where respondents rate either highly favorable or favorable in 1984, in August 1984, dropping to 36 percent in August 1995? What has happened over that period of time? Your budget has tripled. What happened to cause the deterioration from 60 to 36 percent?

Ms. RICHARDSON. Well, I do not know that I can give you any precise answer. I do know that there were articles earlier this year, that you probably read in the Washington Post, that indicated that people's confidence in all institutions has declined.

Senator KERREY. Well, to be fair, I will just read you the numbers: August 1995, the Park Service, 74 percent, highly favorable or favorable; Forest Service, 71 percent, highly favorable or favorable; NASA, 65 percent; Food and Drug Administration, 62 percent; FBI, 61 percent—whoops, I am off the line—59 percent. EPA got 55 percent. So just looking at the Roper Survey that I have heard you cite before, the total favorable for IRS is 36 percent. I can tell you that both Senator Shelby and I would be concerned if our favorable ratings dropped from 60 to 36 percent. We would be trying to figure out what is going on.

Ms. RICHARDSON. Well, and we certainly are.

Senator KERREY. Well, what is the answer then?

Ms. RICHARDSON. I do not think there is any question that we are a surrogate for a lot of people's frustrations about many things in Government. We are the only agency that really does touch the lives of virtually everybody.

Senator KERREY. But the IRS was touching the lives of everybody in 1984, Commissioner Richardson. That has not changed. We have been touching the lives of every American since the IRS was created, it seems to me. I am looking for your own estimate of what has happened, and your first cut at it was that all agencies are unpopular. Few are as unpopular as the IRS.

Your second cut is that you touch the lives of all Americans, but we have touched the lives of all Americans since 1984, yet there has been a decline in your ratings. We have fewer Americans today that have a favorable or highly favorable view of the IRS than did in 1984, and almost one-half as many people.

Ms. RICHARDSON. Well, as I said, I think it is complicated. I do not know that there is any one answer. But it obviously is of grave concern to us, and it is one of the reasons we have put reducing burdens on the taxpayers and providing better customer service at the top of our list.

We have also had a number of tax law changes. When I began my career, the tax laws changed very infrequently, and people, I think, like to have stability, too, in the tax system. And during the 1980's, up until the beginning of this decade, we had a number of

tax law changes, and I think that probably contributed to people's concerns, and made it more difficult for us.

Senator KERREY. You are not suggesting that the tax law changes in 1993 caused the deterioration in confidence, are you?

Ms. RICHARDSON. No; but I suspect that there is some intervening information that we could look at, too.

Senator KERREY. I appreciate your concern about it. I assure you that Senator Shelby and I, as the people who are elected by citizens, are even more concerned. I really do think it gets at the heart of people's confidence in Government, and it is one of the reasons that I think the Commission that this subcommittee instituted is so terribly important. I do not have high hopes that we are going to be able to turn it around, to turn that number around, or that a lot of things will change. But, I do not think it is a good rationalization to say people do not have confidence in other Government agencies, because this one is getting pretty low on the totem pole. Second, I do not think it works to say it is just because we have contacts with all the American people. And third, I really have a difficult time believing that it is just because of tax law changes.

It would be interesting to see what the Roper Survey shows, for example, let us say from 1986 to 1987. Is there a deterioration of confidence from year to year as a consequence of the enactment of the 1986 legislation, which is the last really dramatic change? I do not know. I am just looking at the numbers and looking at some of the representations, and I am very uncomfortable watching that kind of deterioration of confidence.

CRIMINAL INVESTIGATIONS

Let me ask you a few questions about the criminal investigations division. I note that in the President's drug message that he talks about program accomplishments, but there is a decline in money laundering cases and nonnarcotic money laundering cases, as well. Indeed, though the budget shows an increase of $31 million and 202 FTE's for tax fraud and financial investigations, of that, 230 of that is for a revenue compliance initiative. So we really have a decline in FTE's that will be allocated to criminal investigations. Is that not so?

Ms. RICHARDSON. Actually, I think we are asking for an increase.

Senator KERREY. Commissioner, you are asking for an increase of $31 million, and 202 FTE's for tax fraud and financial investigations. But of those 202, 230 are requested as a part of the revenue compliance initiative. I mean, there is no request for money from the violent crime trust fund for CI, and there are deceases in the number of fraud convictions, decreases in the number of narcotics convictions from 1995 to 1997 in CID. Every other law enforcement agency is asking for funding increases. I would be interested to know what the Justice Department thinks of this request, if they think it is sufficient to be able to get the job done. It seems to me that we have declining rates in both the money laundering and the fraud area, and every time I listen to people talk about this they talk about actually an increase in opportunities, to pick a euphemistic word, so why the request for fewer special agents to do this work?

Ms. RICHARDSON. One of the things that we have done in the money laundering area is try to emphasize the use of our special agents who do have particular financial investigative expertise on the more sophisticated money laundering issues, the kingpins, if you will, and leave for the other agencies that also have money laundering jurisdiction some of the other money laundering cases.

Senator KERREY. Is that based upon some kind of memorandum of understanding between you and Justice? Is this an agreement that the Justice Department says makes sense?

Ms. RICHARDSON. I believe that they would support the notion that we should use our financial expertise to—I mean, I have spoken with the Attorney General, and I think she feels that we have a unique niche in the law enforcement community. We do have people who are trained financial investigators.

Senator KERREY. Well, it sounds to me like you are making this decision sort of independently, not as a part of any coordinated strategy that connects with the overall effort to try to reduce money laundering and reduce fraud.

Ms. RICHARDSON. Well, we certainly work with the drug czar's office and with the Justice Department, with Treasury enforcement on the national strategy.

Senator KERREY. What does work with mean? I mean, I work with lots of people, but what are we talking about? What I am asking you is, Do you have a coordinated plan? Is your decision part of a multiagency effort to reduce money laundering and narcotics traffic and fraud?

Ms. RICHARDSON. Our enforcement dollar request is certainly coordinated through the Treasury enforcement and Treasury administration people, and then the Office of Management and Budget looks at all of the law enforcement requests, and to that extent it is certainly coordinated.

Senator KERREY. Every other Federal law enforcement agency shows an increase in the number of narcotics and undercover cases being worked. But the question is why is CID the only one with a decrease?

RESOURCE ALLOCATION

Ms. RICHARDSON. Well, we have had a decrease in our resources, and so what we have done is try to put the CI resources in the money laundering area in the more sophisticated——

Senator KERREY. But you are asking for an increase in FTE's and an increase in resources, Commissioner Richardson, and you are asking for a decrease in CID. I presume that it is a high priority of the administration to get after the money laundering in the narcotics area and to get after fraud, because I have seen increases in virtually every other agency. They have established as a priority, these criminal investigations. But you appear, in your budget, not to be giving it priority status.

Ms. RICHARDSON. Well, once again, we have tried to balance all the various interests, and have a balanced compliance program.

Senator KERREY. What does that mean, balanced compliance program? The facts appear to reach the conclusion that you are requesting fewer FTE's for CID while all other agencies are request-

ing an increase in FTE's. And you are saying it is a balance. I do not know what that means.

Mr. DOLAN. Mr. Kerrey, could I take a crack at this? At the risk of sounding like I am trying to rationalize, which, given your earlier comment, I will try not to do, one of the things that I have found to be a real easy misnomer is to compare something like money laundering prosecutions between one agency and another. And the quickest—as I am sure you know well—the easiest thing in the world to do is to bump up your numbers in money laundering cases. You can add on counts to the cases for money laundering, and you can make that number virtually as big or as small as you want. And I say that, obviously, somewhat figuratively.

But one of the things that I guess I would like the opportunity to do is maybe drill down with you what the last 3 or 4 years look like in terms of the types of prosecutions. Because you asked about strategy, one thing we asked our people 2 years ago was not to chase money laundering as an incidental crime. Chase it in a way that you have got a strategy. Use it to go after the upper echelon—not the blue light crime where you are taking snerps and smurfs and putting money laundering charges on those kinds of things—but try to move it up the food chain.

I think what we could probably demonstrate for you, if you are interested, is a 3- or 4-year pattern that would show our resources being spent that way.

Senator KERREY. It does certainly give the impression that if you are going to use more resources in revenue compliance, that it is a higher priority to go after legal income tax violations as opposed to illegal income ones. I mean, that is the impression that is given in the budget.

Mr. DOLAN. Well, even that, Senator, legal versus illegal, is a distinction that you can make a whole lot more out of if you want to. What we call legal source——

Senator KERREY. If I ask DEA and FBI who is the best at going after money laundering cases, will they not say the special agents of IRS?

Mr. DOLAN. We hope they would.

Ms. RICHARDSON. We hope they would, but we are not sure.

Senator KERREY. With FBI and DEA asking for more resources to go after this, you are asking for less.

Mr. DOLAN. Well, Senator, hopefully what they would also tell you is, and I think the U.S. attorneys around the country would tell you similarly, the place to use the IRS resource is not on every generic money laundering case that comes along, but surgically—use them at the tops of some of these criminal organizations, at the tops of some of these cartel organizations, and I think you would, again, if you asked that customer base, both other law enforcement and U.S. attorneys, are we present there with the talent and the numbers that they expect of us, I think they would tell you yes.

Senator KERREY. Well, Mr. Chairman, I am through with my questioning. I just want to say that as I take a first-cut look at the budget, No. 1, there is no question you have got your hands full trying to process 12 or 14 billion documents a year and 200 million returns. But I am concerned, with my first look at it, that the high-priority programs, those required to increase compliance at the

lowest cost, those who oversee development of TSM, and I understand, Mr. Chairman, we are going to have a hearing on that in July?

Senator SHELBY. We certainly are.

Senator KERREY. Which I think is good. But those who oversee development of TSM across all program lines, those having greatest technical expertise in compliance and information systems versus lower priority ones—data entry, lower level support positions, and so forth, those not directly linked to improved productivity—I would like to know that you have made that kind of evaluation and are making judgments to apply resources appropriately.

I am quite concerned about CID. I do not think you are putting enough resources in CID, and maybe perhaps you can prove that you are. I am concerned, as well, that some of the higher priority programs have been shorted in favor of lower priority.

Mr. Chairman, I appreciate the testimony, and I look forward to working with you.

Senator SHELBY. Thank you.

ENGLISH LANGUAGE

Commissioner Richardson, getting into another little area here, how many languages were IRS forms published in this year?

Ms. RICHARDSON. I believe only one: English.

Senator SHELBY. English. And you did not publish in any foreign language?

Ms. RICHARDSON. We published no income tax forms in any foreign languages this year.

Senator SHELBY. Do you provide other services other than forms?

Ms. RICHARDSON. We do, Senator Shelby, most notably in Spanish.

Senator SHELBY. Answering questions and helping fill out tax forms.

Ms. RICHARDSON. Answering questions, and I do want to remind people, because I am often asked about this, that many people are obligated to pay taxes in this country whether or not they are citizens when they have earned income here.

Senator SHELBY. You support that, though, do you not?

Ms. RICHARDSON. I do support that. And I think our obligation is to try to make people understand what their obligations are. So we do have, in certain areas of the country, people who can assist in Spanish. We also have outreach programs in various communities using other languages, largely volunteers.

Senator SHELBY. But English is what you publish your forms in.

Ms. RICHARDSON. English is what we publish our standard forms in.

Senator SHELBY. And work from in.

Ms. RICHARDSON. And work from, yes.

AMCOR

Senator SHELBY. I want to ask you some questions about the Amcor Capital Corp. Are you familiar with that?

Ms. RICHARDSON. I read about it in the paper.

Senator SHELBY. I have heard from a number of my constituents and other people around the Nation what they believe to be unfair

treatment from the IRS, in that IRS has sought civil action against the investors of Amcor, which to my knowledge were never suspected of any wrongdoing. And in the IRS fraud case, I think it was, why are they ultimately being held responsible for the intentional fraudulent activities of a few farmers? Why were these deductions improper? And if they were, how can any investor protect himself where they are innocently investing in something? Did the IRS conduct an investigation into allegations of misconduct in the Amcor case? What kind of investigation was undertaken? Could you furnish this for the record?

Ms. RICHARDSON. I will certainly furnish what I can. But we are currently in litigation with Amcor and its partners.

Senator SHELBY. We do not want you to furnish anything you should not.

[The information follows:]

Under the tax laws, investors in partnerships, both general partners who take an active role in the management of the partnership and limited partners who generally play a passive role in partnership operations, can only claim deductions, credits or other flow-through tax items on their individual tax returns to the extent those items were properly an outgrowth of the partnership's operations. Thus, even though limited partners receive notice from the partnership to report certain amounts as losses or credits, those losses or credits can only properly be claimed by these partners if the partnership was actually entitled to claim them in the first instance.

The IRS concluded that these partnerships had not properly reported various tax items. The IRS has never claimed that any of the limited partners who only invested in the AMCOR-sponsored partnerships were responsible for any fraudulent conduct. The adjustments the IRS made to the partnership income, deduction and credit items were made to correct misreportings initially made by the partnership. The correctness of these adjustments is the focus of the pending Tax Court litigation.

The investors are not being charged with any fraudulent conduct. Rather they are being asked to pay additional taxes that, under the Internal Revenue Code, are properly due. Since the partnerships in which they invested did not actually conduct the farming operations claimed on the partnership returns for the first one or two years of existence, the partners may not properly claim deductions and credits on their individual tax returns as though those farming operations had taken place.

The deductions could not properly be claimed, because, in the absence of farming activity that actually took place, there is no basis under the tax laws for allowing the deductions and credits that were claimed by the partnership. With most investment activity, investors face some financial risk when they entrust their monies to others. The wisest course for any investor is to rely upon competent, independent professional advice before making an investment.

IRS INVESTIGATION OF AMCOR

Senator SHELBY. But what conclusions were reached by the IRS inspection on whether misconduct occurred or not? I guess that is in litigation?

Ms. RICHARDSON. Correct, and I would feel uncomfortable right now commenting while these matters are in litigation, but we will certainly provide you what we can.

Senator SHELBY. Well, we have gotten a lot of letters, I have and other people have in the Congress, where they are investors that have invested money, and they are not culprits in any situation, and not considered, I do not think, but the IRS. And yet ultimately, they are asked to pay the price, I suppose. We would like to know where we can at least try to explain to them what is going on with the IRS investigation of Amcor, is it justified? That is something

you will have to determine, and go from there. That is part of your job.

Do you deal with cash bonuses for work, in any cases? Like IRS, do you pay your employees any cash bonuses?

Ms. RICHARDSON. This year we certainly have not.

Senator SHELBY. Have you before? Have you, Mr. Dolan? Is that an incentive program?

Ms. RICHARDSON. Yes; we have had awards programs.

Senator SHELBY. Mr. Dolan.

Mr. DOLAN. Mr. Chairman, there is a spectrum across which various parts of the organization are eligible either for incentive awards or very formalized processes that are in place that reward people for performance above their general expectations.

NO IRS BOUNTY SYSTEM

Senator SHELBY. But these are not a type of Justice of the Peace syndrome that we used to have around the country, and I guess some people still do, where you are brought before the judge and the judge gets a fee if they convict somebody?

Mr. DOLAN. Absolutely not.

Ms. RICHARDSON. No; absolutely not.

Senator SHELBY. And if they do not, they do not get paid.

Ms. RICHARDSON. In fact, we have a policy statement.

Senator SHELBY. Do you understand what I mean?

Ms. RICHARDSON. I am sorry. I do understand the import of your question. We have a policy statement that precludes us from compensating people based on dollars collected.

Senator SHELBY. OK. There is no bounty system.

Ms. RICHARDSON. No bounty system. In fact, that is one of the things that we assiduously avoid, and one of the issues in the private debt collection area that has been raised. I think one of the concerns that I believe has been raised with you, as well, is that we are not compensating people based on the amount they collect.

Senator SHELBY. Historically, IRS has devoted about two-thirds of its collection resources to the field function where revenue officers, generally high graded staff with many years of experience, make personal contact with delinquent taxpayers. It is my understanding this function has been the least productive and most costly step of the collection process, and is used very little by private collectors. Why has IRS focused so much of its collection resources on field collections despite its low productivity, if that were true?

Ms. RICHARDSON. I am going to ask Mr. Donelson to address that. He is a former—maybe, I guess even a current revenue officer.

Senator SHELBY. An enforcer?

Ms. RICHARDSON. He has worked most of his career in the collection function.

Senator SHELBY. Is that true, Mr. Donelson?

Mr. DONELSON. The revenue officers make up approximately 7,800 of the 17,000-plus employees in collections. So it is not two-thirds. We divide our resources into the people that work in our service centers who send notices out and deal with taxpayers through correspondence. Another group of people, a large group, work on our telephone answering sites with a strictly conscience

collection issue. They will deal not with taxpayer questions about how to file my return, but there are separate call sites just for collection issues. And then eventually cases that cannot be resolved either through the mail or on the telephone are assigned to revenue officers in the field, the people that you referred to.

They are very valuable in that more people will send us letters and respond to our correspondence, more people will dial the telephone and call us when they know that ultimately if they do not do either of those two steps they are liable to be visited. So there is a deterrent effect as much as how much money they will bring in. The difference between what they bring in and what a person on the telephone brings in is significant, but it is also, I think, understandable because they contact so many fewer taxpayers. And ultimately, they are dealing with people who have been in the collection process for up to 1 year before they actually have to confront them.

IRS ACCOUNTS RECEIVABLE

Senator SHELBY. It is my understanding from the fiscal year of 1993 to the fiscal year of 1994 the IRS estimate of collectible and tax accounts receivable increased from $29.3 to $35 billion. Can you explain this significant increase in your expected collections?

Mr. DONELSON. The collection organization has done an awful lot to try to perfect the inventories. And, while we have tried to sift through those collectibles, we have been able to discount many of the accounts you talked about earlier in that $200 billion accounts receivable. We have been able to identify which are really truly collectible from those that are not collectible.

We have also gotten better at collecting over the last several years. Part of the reason it already has grown from 1993 to now is that we are in the last year of a 10-year statute extension. You have to go back a few years to when the statute was 6 years and was extended to 10. This is the last year of that growth cycle.

Senator SHELBY. That has helped a lot, then?

Mr. DONELSON. Well, it has helped in terms of collecting more money.

Senator SHELBY. What is your estimate of the 1995 collectibles, if you have that?

Mr. DONELSON. Yes; can I give it to you for the record?

Senator SHELBY. That will be fine.

[The information follows:]

At the end of fiscal year 1995, IRS' Gross Accounts Receivable Inventory was $200 billion which is comprised of Currently Not Collectible of $87.3 billion and Active Accounts Receivable Inventory of $88.8 billion. From the Active Accounts Receivable Inventory, we estimate that approximately $46.5 billion are doubtful accounts resulting in a net realizable active accounts receivable of $42.3 billion.

FRAUD

Senator SHELBY. Let us get into areas of fraud, something you know a lot about. In recent years the IRS has taken steps to reduce fraud. And I would like to commend you for that. I would also like to take a few minutes to review some of the issues that have arisen with regard to these efforts.

In 1995 the IRS took several steps to identify questionable returns, but encountered several problems in the implementation. A large part of the effort utilizes scrutinization of Social Security numbers. I believe you found that many of the cases selected for review involving missing or invalid Social Security numbers were unproductive and resulted in inefficient use of resources. Is that a correct representation?

Mr. DOLAN. I think, certainly, you used the word "many," and that would be a true statement. But I think the part of that that I would want to jump in front of is to suggest that a huge number of the mismatches that we detected were indeed mismatches. Now, many, many of those were not——

Senator SHELBY. What are you doing to remedy that?

Mr. DOLAN. Well, that is what I was going to say, that many of those were not people intent on perpetrating fraud. There were folks who never corrected the record of the Social Security administration. An awful lot of those got corrected, but at the end of the day. I think at this point there are about 1½ million dependents that have disappeared magically as a result of our challenging Social Security numbers.

So while there were some that were caught up in our transactions and had to go get them corrected because they were valid and their kids were valid, there were 1½ million that our estimates suggest would not have been thwarted had we not applied those techniques.

Senator SHELBY. In an effort to improve your controls, it is my understanding you took several steps to expand control of electronic filing and the processes used to identify individual taxpayers who are eligible to participate in electronic filing. Could you identify what you have done and what you plan to do here? How many people filed electronically in 1995 and this year.

Ms. RICHARDSON. I have the numbers.

Senator SHELBY. Do you want to furnish that for the record?

ELECTRONIC FILING

Ms. RICHARDSON. Yes; well, last year we had about 11 million who filed electronically in the traditional way. This year we had over 12 million who filed that way. But we also had over 2.8 million who filed by telephone this year. That was up almost over 300 percent from last year.

Senator SHELBY. Explain by telephone what do you mean, as opposed to electronically filing.

Ms. RICHARDSON. Well, it is a form of electronic filing, but it is our telefile program. We break it out by the traditional type of electronic filing—which is sent through a return transmitter; the telephone type—which you can do from home any time of the day or night with a telephone call; and then we break out the joint Fed-State filings. We have some arrangements with some of the States where people can file jointly a single return electronically, and we had over 3 million of those that were filed this year, which was about three times as many as we had last year. So in total, I believe we have had almost 15 million individuals filing electronically so far this year, and that was up.

Senator SHELBY. That is a lot of people, is it not?

Ms. RICHARDSON. It is. I would like to have a lot more, but it is certainly up from last year.

But one of the things, and I would like to underscore, that we had a very smooth filing season this year. We did not have the problems with Social Security numbers, because I do think that many of the records were corrected, and I think people and preparers also understood that we were very serious about addressing the fraud issues. And as Mr. Dolan said, we lost 1½ million dependents. We also had about a $0.5 billion in refunds that were claimed that never went out the door, that we were able to stop.

Senator SHELBY. Commissioner, do you not anticipate a tremendous growth in electronic filing of all kinds?

Ms. RICHARDSON. We do, and we hope to provide a number of alternatives to both individuals and businesses to encourage electronic filing over the next several years.

Senator SHELBY. In conjunction with the electronic filing program, the private sector offers what is commonly referred to as a refund anticipation loan or loans. Through these loans, taxpayers for a fee can get money sooner than waiting for the IRS to issue a refund. Although the IRS is not part of this contract, IRS did provide an indicator known as a direct deposit indicator [DDI], is that correct?

Ms. RICHARDSON. Correct.

Senator SHELBY. Indicating that the taxpayer's direct deposit would be honored. In 1995, IRS discontinued this practice under the guise of fighting taxpayer fraud. Is there evidence that this action deters fraud? On what do you base this observation?

Ms. RICHARDSON. As a part of the IRS' overall strategy to deter filing fraud and abuse, we analyzed the direct deposit indicator and its impact on compliance. The direct deposit indicator had been a fairly accurate predictor that the refund would be paid. In our analysis, we found that a number of fraud schemes involved refund anticipation loans. The direct deposit indicator was often used as a signal to lenders who with preparers that a refund would be on the way shortly. Elimination of the direct deposit indicator meant that the IRS no longer told the electronic filing operations whether a refund is likely to be coming. While the direct deposit indicator was eliminated for the 1995 filing season, lenders are still free to make refund anticipation loans based on their usual lending criteria. The taxpayers still get any refund they are due, but the IRS does not send notifications.

We are very much convinced, as are our fraud experts, that it was an attractant, and that by getting rid of it we did go a long way toward addressing some of the fraud issues.

And this year there were refund anticipation loans made by the private sector, and our electronic filing is up, so I think the proof is really in the pudding.

TELEPHONE INQUIRIES

Senator SHELBY. Good. That is good.

As far as customer service is concerned, the IRS often bears the brunt of taxpayer criticism, as Senator Kerrey was talking to you about. Some of that criticism, I guess, is warranted, and some is not warranted. Whatever the case, taxpayer service, Commissioner

Richardson, is a cornerstone of the voluntary tax system. You and many of your predecessors, Commissioner Richardson, have attempted to make taxpayer services No. 1 priority. What progress has IRS made under your leadership toward its goal to resolve the 95 percent of taxpayer inquiries after one telephone contact?

Ms. RICHARDSON. Well, through last year, which is the last year for which we had full information, we estimate that 75 percent of the account inquiries were settled in a first phone call. We believe we made a lot of progress because we had—I guess last year was the first time we had account information available nationwide. One of the things that has restricted us in the past is our telephone assisters not having access to the information they needed to resolve an account.

Senator SHELBY. What is the current level of initial contact resolution? Do you have that? If not, you can furnish it for the record.

Ms. RICHARDSON. The national initial contact resolution rate through April 30, 1996, was 79 percent.

Senator SHELBY. You stated before that improved telephone accessibility is a goal of IRS, yet many taxpayers still find it difficult to reach IRS by telephone. In this filing year, you initiated a separate phone number for account calls in addition to the standard taxpayer service number. Did this decision by you assist IRS in your efforts to service a taxpayer seeking assistance?

Ms. RICHARDSON. Our toll-free numbers answered over 3 million more calls than we did the prior year. That separate number for the account calls actually went into effect, I think, right after the end of the filing season. So we will be able to give you some reports on that later on.

Senator SHELBY. Would you give us a report, including how you compute and define accessibility?

Ms. RICHARDSON. Absolutely.

[The information follows:]

Filing Season 1996 Phone Calls v. Filing Season 1995 Phone Calls.—IRS Taxpayer Service employees answered 24 million calls during the 1996 filing season compared to 21.6 million calls during the 1995 filing season. Additionally, demand decreased from 54.6 million in filing season 1995 to 48.4 million in filing season 1996.

Level of Access Defined.—The IRS definition of "level of access" is the number of customers who receive service as a percentage of the total number of customers seeking service.

Level of Access Computation.—To compute "level of access", we divide the number of calls answered by the total number of customers seeking service. The calls answered reflect only those customers who received service. Those who called, were put in queue, but hung up before being served, are not counted in the level of access calculation.

Report on Account Call Activity.—Beginning the week of April 15th, all IRS answering sites accepted account calls on a new, separate number. The Level of Access on that special telephone line was 46 percent that first week, but increased to 56 percent for the week ending May 18, 1996.

Ms. RICHARDSON. The other thing we have done is really take a long look at and ask ourselves why people call us in the first place. One of the reasons we believe they call is they may get a notice from us that they do not understand.

Senator SHELBY. They call you for information, do they not?

Ms. RICHARDSON. They call us for information, they call us when they get a letter from us frequently, some people do not even want to open the envelope without calling us to find out what it is that

they have been asked to do. But people do get notices from us, letters from us, that they do not necessarily understand. So we have gone through and eliminated a lot of notices that we do not think we need to issue anymore. I believe as many as 18 million that would have already gone out this year have not gone out. We are taking a hard look at the notices we do issue and are trying to make them crystal clear, so that when people get them they will understand.

TAXPAYER SERVICES

Senator SHELBY. Straight language?

Ms. RICHARDSON. Straight language. Mr. Donelson, I think, mentioned earlier we have in pilot right now and hope to roll out in the next few months some notices that look very much like the kind of notices you might get from your bank or your credit card company. They leave little doubt as to what you should do. They have phone numbers to call, but they also make very clear whether it is a notice asking for payment or some other action.

Senator SHELBY. At what point in time, Commissioner Richardson, do you anticipate being able to answer what we would call all calls of taxpayers to IRS, or substantially all?

Ms. RICHARDSON. I honestly do not know. It is certainly going to be a function of a number of things. I think it is a function of reengineering some of our business processes, as I mentioned; getting notices so people may not need to call us; moving people who can be served over the internet, and in other alternative ways, to be served that way; and ideally I would like to say that we could answer every call we are going to get sometime in the next several years. Technology will certainly help us do it, but you still have to have somebody on the other end of the phone to answer it.

Senator SHELBY. What kind of system do you have at IRS to track the accuracy of the information that is dispensed by IRS to the taxpayer and citizen as a result of their calling in for information? Is there some method by which you track the accuracy? Because I think it is very important if they call IRS and if they ask a straight-up question that they get a straight-up answer that they can rely on. I think that is important to the well-being of the country.

Mr. DONELSON. Senator, if I could answer that question, we have developed, in cooperation with GAO, a series of technical questions that we track the accuracy of. We have achieved an agreement between ourselves and GAO as to the accuracy of the question, what it should be when somebody poses the question to come very common questions, and we have agreement with them as to how those measurements are utilized. And that is where we come up with our sampling that has resulted in about a 90-percent accuracy rate in the technical law.

IRS OFFICE SPACE

Senator SHELBY. Commissioner Richardson, in some States we have been told that the IRS is creating a central office, say, in Louisiana, just for example, in New Orleans, to service basically the whole State and closing some of the regional offices, and assigning the employees to, say, the central office in the State. Yet the em-

ployees do not work out of the central office, they work out of their homes. But they are counted as an employee for space, rental space, for GSA or something, to justify the big rental office. Are you aware of all this? We are going to hold some hearings with GSA on this, and we think you might overlap some there.

Mr. DOLAN. It sounds like pieces of your example, Senator, would ring true. But not with the outcome that has been described here.

Senator SHELBY. Well, clarify it, then.

Mr. DOLAN. One of the things we have done, and actually it is something we have done more aggressively this year with the big change from our 1995 to 1996 budget, is go after everything that was not tied down in terms of the ability to reduce cost.

You know, last year, or I guess November a year ago, we described an overall restructuring that was going on in the Service. With that we consciously set out to take 1,000 positions out of overhead. As we sit here today, 660 of those are totally gone, and we are taking the rest out. With that, we have been able to take offices off of our inventory and shrink other offices.

We also had a very aggressive campaign going to look for places where it makes sense to let people work out of their homes and not pay for office space for somebody to come to.

Senator SHELBY. I am not against that. I am just wondering—my question is, Is there some kind of manipulation of the process to have a big central office that people really do not use, and they are working out of their homes.

Mr. DOLAN. I think what you may be referring to is the general way GSA calculates how much space an agency has, how many bodies they have. I cannot tell you.

Senator SHELBY. Right. They are assigned to an office that they do not work out of.

Mr. DOLAN. No; we are not doing it for that reason. We are doing it to bring our space holdings down, and we have done so substantially. I would bet, though, as to the point you are making, at the end of the day there is some table somewhere that says how much square footage the IRS has, how many people they have, and somebody could unintelligently divide the two together and say that is our—that is our square feet per person, but in some office it might not come out that way.

Senator SHELBY. See, I do not know this. I have been told this, and since this committee has jurisdiction over GSA we are going to get into that, and some of it might overlap with you, it might not.

Ms. RICHARDSON. Well, the object of our exercise has been to give up space so that we can recognize the rental savings.

Senator SHELBY. Well, I am for all that.

Ms. RICHARDSON. Now, you may be hearing, as I believe you did from some of your colleagues, about some proposals to perhaps give up some space in your State.

Senator SHELBY. Well, that is OK with me to downsize. I am going to continue to try to get you to downsize and be efficient, but not to do it in a manipulative way. I am not accusing you of that, I am just telling you.

Ms. RICHARDSON. But our goal has been both to downsize and give up the space so we can have the rental savings, as well.

Senator SHELBY. Yes; give up the local space, but also give up a lot of big space in new buildings and so forth.

Ms. RICHARDSON. We are doing that, as well.

Senator SHELBY. You might want to have somebody present at the GSA hearing.

Ms. RICHARDSON. I mentioned in my oral statement, we have reduced the number of regions from seven to four, so we are in the process of giving up those four regional offices and the space that went with it, and then we have the 30 districts, the district headquarters have been closed, and that space is being given up and those people are actually being moved to other jobs or off the rolls.

SUBMITTED QUESTIONS

Senator SHELBY. We have a lot of questions that are technical in nature that we want to ask you for the record for the committee, and I want to thank you, Commissioner Richardson, you and your staff, for being here.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

Fiscal Year 1997 Budget Request

Question: Commissioner, the fiscal year 1996 appropriation fell far short of the administration's request. The fiscal year 1997 request is almost 650 million dollars and 2,699 FTE more than was provided in this year's budget. For the record could you briefly outline the highlights of this request? Are there reductions in your budget request?

Answer: For FY 1997, the Internal Revenue Service has proposed three equally significant and critical investment components that will substantially reduce the burden on the American taxpayer, enhance compliance, and maximize revenue collections. The investment components include Maintaining Current Levels of Service, the Tax Systems Modernization (TSM) program, and the Revenue Protection Initiative. A detailed breakout of increases and decreases is shown in the table below.

(dollars in thousands)	Total IRS Request	
	FTE	$AMOUNT
FY 1996 Financial Plan	106,351	$7,348,212
Maintaining Current Operations		
Labor		154,901
Non-Labor		24,575
Annualization of FY 1996 Pay Raise		28,109
Service Center Workload Growth	220	7,227
Non-Pay Raise Labor Shortfall		61,000
Tax Systems Modernization		150,000
Revenue Protection Initiative	3,820	359,000
OIG Reimbursement		834
Subtotal Increases	4,040	$785,646
Admin Cost Reduction (E.O. #12837)		(58,200)
Base Program Cut by OMB	(1,341)	(80,500)
Subtotal Decreases	(1,341)	($138,700)
Net Increases and Decreases	2,699	$646,946
Total FY 1997 President's Budget Request	109,050	$7,995,158

Question: Commissioner, I have on several occasions stated that I think that IRS should look toward reducing the number of employees, yet every year and every new initiative requests additional people. The fiscal year 1997 request is no different. Are you proposing to reduce any personnel?

Answer: Excluding the requests for the Revenue Protection Initiative of 3,820 FTE and the Service Center Workload Growth of 220 FTE, the FY 1997 President's Budget request shows a reduction of 1,341 FTE from the FY 1996 Operating Level. The Service's proposal for the Revenue Protection Initiative is presented as an investment – with a return on investment of better than 4 to 1 for FY 1997 and 7 to 1 from FY 1997 to 2002.

Question: Will we ever get to the point when the Internal Revenue Service will be asking for less FTE?

Answer: The Internal Revenue Service needs TSM or staffing (or some combination) to preserve tax administration. Unless there is adequate funding for TSM, FTE reductions will severely impact levels of service and revenue collections. To preserve essential programs, a balance needs to be struck between funding for TSM and funding for the Service's frontline FTE.

Question: Is your reorganization giving you FTE to work with?

Answer: As you know, during the past year, IRS has undergone a major field restructuring, known as the Regional and District Management Consolidation. As part of this process, IRS reduced the number of regions from seven to four and the number of districts from 63 to 33. This included consolidating a number of functions in the field as well as abolishing a number of positions. To date, we have abolished approximately 1,000 positions. This will help the IRS to absorb the budget reduction we experienced in FY 1996.

Question: As you note, the vast majority of the new positions you are asking for is for a new revenue collection initiative, which is projected to generate $1.5 billion in FY 1997 and considerably more in the out years. The Budget Committee indicated its support of the 1995 revenue initiative, but it failed to provide funding in the allocation. I have not had discussions with the Committee on this issue, but I don't believe that the Budget Committee intends to go outside the caps for an initiative like this, even if it provides revenue, over and above that which is anticipated. Commissioner, have you or anyone in the Treasury Department had discussions with the Chairman or other members of the Budget Committee on this proposal? Do you have any feedback you could share?

Answer: Mr. Chairman, speaking for myself and others at the IRS, there have been no discussions with the Budget Committee on this proposal.

Question: The Committee has provided the Service with a transfer authority of 2 percent. This gives the IRS the ability to move funds between the 3 accounts to meet the immediate needs which often arise, based on the tax season. You are asking for a 5 percent authority in fiscal year 1997. Commissioner, 5 percent of the tax law enforcement account is approximately 200 million dollars. That is a sizable amount of money to be moved without this Subcommittee being involved. Would you like to comment on this proposal?

Answer: The proposed changes will provide the Service with increased reprogramming flexibility while keeping Congress informed, in advance, of any movement between appropriations. This flexibility is increasingly important to the Service as it copes with significant budget reductions and as it restructures its programs and realigns its resources to better serve taxpayers.

Question: The Justice Department has chosen to reduce its reimbursement to non-justice agencies which have been participating in Organized Crime Enforcement Drug Task Forces because of budget reductions. How many IRS agents participate in these task forces?

Answer: During FY 96, Criminal Investigation (CI) has allocated 356 criminal investigator FTEs to the Organized Crime Drug Enforcement (OCDETF) case work (task force work) and 329 FTEs to non-OCDETF narcotic case work for a total of 685 FTEs. During FY 95, CI allocated 414 FTEs to OCDETF case work and 329 FTEs to non-OCDETF narcotic case work for a total of 743 FTEs.

Question: What have you had to do because of this decision by the Justice Department?

Answer: Due to the decrease in OCDETF reimbursement to CI for FY 96 of 58 FTEs, CI will expend 58 FTEs less on the OCDETF program during FY 96.

Question: What impact will this have on future participation?

Answer: In the future, CI's participation in OCDETF cases will be marginally less than expended in FY 95 or FY 96. For FY 97, CI will apply 347 FTEs to the OCDETF program. However, due to continued reduction in overall criminal investigator staffing, CI will significantly reduce FTEs applied to non-OCDETF narcotic case work.

<u>Previous Budget Years</u>

Question: The Subcommittee understands that in allocating the budget for fiscal year 1996,

IRS made significant reductions in areas, such as the program for detecting unreported income and the automated collection system portion of its collection program, that generally appear to be more productive, that is, generate more revenue than other IRS programs. Would you please explain the process and rationale used to decide which programs would be cut for fiscal year 1996 and which would be increased? According to recent GAO testimony before the Oversight Subcommittee of the House Committee on Ways and Means, one step IRS took to deal with funding reductions for fiscal year 1996 was to cut employee cash awards by 20 percent. Was reducing cash awards more substantially or even eliminating them altogether considered?

Answer: Yes. IRS considered a range of options from keeping cash awards at traditional levels to eliminating them entirely.

Question: What was the basis for the 20 percent decision?

Answer: The IRS believed that keeping cash awards at traditional levels while possibly furloughing the entire workforce for one or more days would be counterproductive to employee morale and productivity. Similarly, IRS believed that eliminating cash awards entirely would send a message to employees that there was no benefit for superior performance. Therefore, we decided to reduce cash awards by 20 percent so we could still recognize superior performance.

Question: How much has IRS spent on cash awards this year?

Answer: Through April 30, 1996, IRS spent $13.9 million on cash awards.

Question: How does this compare with recent years?

Answer: Through April 30, 1995, which IRS believes was a typical year, IRS spent $21.8 million on cash awards.

Question: Will this sum increase before the year is out?

Answer: As of mid-May 1996, IRS had an annual cash awards plan of $36.2 million, including the amounts spent through April 30, 1996. IRS expects actual cash awards paid to equal approximately that plan amount by the end of fiscal year 1996. This amount represents a 28 percent reduction from traditional levels, meaning that some of the Financial Plan Managers have reduced the amount budgeted for cash awards from the levels initially provided.

Question: In fiscal year 1996, Congress provided IRS with an additional $405 million for an additional 6,238 staff, of which about 1,781 were to be devoted to collection.

Question: What portion of that staff were for the automated collection function and what portion were for revenue officers?

Answer:	Automated Collection System (ACS)	298 FTEs
	Collection Field function (CFf) Revenue Officers	747 FTEs

Note: ACS capacity (seating) was maximized with the additional 298 FTEs. Additional collection staffing was used for service center support.

Question: What type of productivity data did IRS use to determine how to best allocate that staff across the different collection functions?

Answer: Collection funds are generally allocated as follows:

- First, Service Center Collection Branch (SCCB) is initially funded at the working plan level. Extensive detailed work plans for all SCCB operations are developed which determine this initial funding.

- Second, the Automated Collection System (ACS) is funded at full capacity. Productivity data such as dollars collected and dollars collected per staff year indicate that we will maximize our return on investment when fully funding this function.

- Third, the Collection Field Function (CFf) is funded, shifting resources where possible to the highest yielding districts. Productivity data such as dollars collected indicate the necessity to fund this function as fully as possible, but not to the detriment of ACS or SCCB.

This allocation order ensures that Collection's resources will be applied to our most profitable programs. SCCB funding is vital because of its direct support of ACS and CFf.

Question: Overall, how many and what percent of IRS's non-support collection staff are revenue officers?

Answer: Both permanent and temporary Revenue Officers equal 43% of Collection's total on-rolls staffing as of March 30, 1996.

Question: According to your fiscal year 1994 financial statements, the largest portion of the IRS' expenses relate to the collection and enforcement of tax debts. Can you link the cost of your various programs to the revenues that each generates? If so, which programs has IRS determined to be the most cost effective and what actions do you intend to take or have taken to take advantage of the results of this information? If not, when will information on the cost effectiveness of each of the programs be available?

Answer: Yes, we can link the costs. Our analysis shows that our most productive programs are: 1) Service Center Collection Branch (SCCB); 2) Coordinated Examination Program (CEP); 3) Automated Collection System (ACS); and 4) Document Matching Programs (including Underreporter and Substitute for Return). In FY 1996, in order to rectify staffing shortfalls in ACS, we detailed Revenue Officers from the Collection Field function into ACS sites. For FY 1997, we have taken steps to address this shortfall on a more permanent basis. Also, our proposed Revenue Protection Initiative in the FY 1997 President's Budget requests staff only for Service Center Compliance operations and ACS. Although it is a highly cost-effective program, CEP does not require large additional staffing investments at this time, since it focuses on only the relatively stable population of large corporate taxpayers. Our longer term compliance business priorities focus on moving enforcement work "upstream" in the process, that is, into operations such as Service Center Compliance units and ACS/ Customer Service environment.

Question: In the past, IRS has been criticized for not having the information needed to be able to show how much its enforcement programs actually generate in revenue. In an effort to fill that important information void, IRS has been implementing an Enforcement Revenue Information System (ERIS). What is the status of this system?

Answer: The Enforcement Revenue Information System (ERIS) is fully operational, tracking the amount and timing of revenue from all IRS enforcement actions over time and across all enforcement functions. ERIS data is being used within the Service as well as by outside stakeholders such as GAO.

Question: Is ERIS generating data that enables IRS to say with certainty how much revenue in terms of collected dollars its enforcement programs, individually and in total, actually generate?

Answer: ERIS tracks all enforcement revenue for the Examination, Appeals/Chief Counsel, Collection and Information Reporter/Underreporter enforcement programs, individually and in total. It collects these programmatic totals in a manner that avoids double counting of any enforcement revenue, providing comprehensive revenue data including recommendations, assessments and collections of tax, penalty and interest by fiscal year.

Question: If so, what assurance can you provide the subcommittee that the data are reliable?

If not, when will such data be available?

Answer: The reliability of ERIS data is based on the following: First, software developed for use in ERIS is tested in accordance with industry-standard Quality Systems Testing (QST) procedures, currently by an independent, outside contractor. Second, the Internal Audit function of the IRS has twice reviewed ERIS, and its recommended changes/enhancements to ERIS have been implemented. The only recommendation not yet completed is that the ERIS data be submitted to the affected functions for acceptance testing. This acceptance testing is currently underway. Third, GAO has begun a review of the System under their audit of the IRS FY 1996 Financial Statement. While this review is underway, other offices in GAO are currently using ERIS data as part of other IRS reviews. ERIS is a complex system and we will continue to make changes recommended by auditors to assure its accuracy.

Question: In tracking the collection of tax assessments from enforcement actions, does ERIS account for abatements, net operating loss claims, credit carryover claims, refund claims, and other actions that can affect that portion of the assessment that eventually gets collected?

Answer: For the cases ERIS tracks, ERIS does account for all abatements, net operating loss claims, credit carryover claims, and refund claims that are posted to the Master File. While ERIS captures all data on these activities, we do not systemically net the results of all these actions in reporting enforcement revenue.

Collections/Accounts Receivable

Question: IRS estimated that it had $69.2 billion in valid accounts receivable as of September 30, 1994, of which $35 billion was deemed collectible. In reporting on its examination of IRS' fiscal year 1994 financial statements, GAO said that it was unable to verify the reasonableness of the accuracy of the accounts receivable reported by IRS. Does this mean that IRS does not have detailed records, by taxpayer, of who owes IRS money?

Answer: No. The IRS maintains detailed records on all taxpayers who owe money in the individual masterfile (IMF), business masterfile (BMF), individual retirement accounts file (IRAF), and non masterfile (NMF). IRS uses these masterfiles to extract its total inventory of taxpayers who owe money for its management information reports and for financial reporting.

Question: How much can it expect to collect on each of these accounts?

Answer: Because there are approximately 25 million assessments in the accounts receivable dollar inventory, determining the collectibility of every assessment is not possible. Therefore, we rely on statistical sampling techniques to determine the collectibility of our accounts receivables. For fiscal year 1994, and likewise for fiscal years 1993 and 1992, we based our estimates on samples we selected from the total accounts receivable inventory based on age and dollar amounts. We then derived rates of collection from a review of these cases and applied them to the entire population of accounts receivables based on the age and dollar strata.

Question: If you do have these detailed records, then why do you use statistical samples to project the amount of accounts receivable and how much is collectible?

Answer: The IRS does have detailed records, by taxpayer, of who owes and the dollar amount owed. We do not use statistical samples to project the amount of the accounts receivable. Thus, at the end of FY 95, the gross accounts receivable inventory was $200 billion. Factors, such as bankruptcy, death of the taxpayer, economic conditions, age of the uncollected debt, etc., affect the collectibility of this inventory over the time that IRS has to legally collect the debt – 10 years. Financial statement reporting requires that the collectible portion of accounts receivable be reported. The collectibility must be estimated through the use of statistical samples since we have no way to determine those taxpayers will be unable to pay and the amount that they will be unable to pay at the end of the 10 year period.

Question: If you do not now have these kinds of detailed records, when will you?

Answer: As we stated above, we do have the detailed records necessary to report on our inventory.

Question: Considering the major problems that GAO and others have raised over the years on the reliability of IRS's data, particularly the underlying data that supports many of IRS's reports, I am concerned about the accuracy of the delinquent tax collection figures you report. Would you please explain how these collection figures are calculated?

Answer: Collection yield is the total of the payments that post on the Masterfile to each taxpayer's account while they are in a delinquent status.

Question: Can you tell us how this money was collected? For example, how much of the money was collected as a result of techniques such as telephone calls, notices, or refund offsets?

Answer: Following is a table showing FY 1995 collection yield by category and how much of each category was comprised of refund offsets. Refund offsets can occur while an account is any of the categories.

FY 1995 Collection Yield

Category	Total Collected	Amount Offset	% of Total Offset
Notices	$11,761,903,605	$1,908,213,790	16%
Installment Agreements	$5,378,382,762	$813,428,748	15%
TDAs	$7,418,574,886	$1,280,748,373	17%
Deferrals	$525,645,734	$375,112,785	71%
Non-Masterfile	$65,350,251	$10,226,071	16%
TOTAL	**$25,149,857,238**	**$4,387,729,767**	**17%**

Question: Historically, IRS has devoted two-thirds of its collection resources to the field function where revenue officers, generally high-graded staff with many years of experience, make personal contact with delinquent taxpayers. This function has been the least productive and most costly step of the collection process and is used very little by private collectors. Recognizing the current civil service personnel rules and procedures, what options does IRS have in reengineering its collection process given the large number of revenue officers?

Answer: Private collectors can only collect if they persuade the debtor to pay. Such persuasion can be done over the telephone or through the mail. If the debtor refuses to pay, the private collector cannot force payment; but rather must sue to obtain a judgment or, in some cases, repossess collateral security.

Unlike private collectors, IRS revenue officers have a range of enforcement tools, including seizure and sale of almost any property the taxpayer owns. Revenue officers are an essential part of the collection process when the taxpayer cannot be persuaded through calls and letters to satisfy the account.

Although personnel rules and procedures must be followed, IRS is not without options if it is determined that there are too many revenue officers or that they are not located where they are needed. Options include (1) reviewing current staffing and geographic needs, then redirecting resources only to areas where the need exists; (2) recruiting/hiring only where staffing is needed; (3) conducting a selective reduction in force. Any such actions would be subject to negotiations with the employees' union.

Question: What is the ratio of staffing levels and dollars spent to dollars collected over the last few years for each stage of the collection process—notices, telephone contact, field collections?

Answer: See chart below.

FY 1994	ACS	SCCB	CFf	non-functional	Totals
Notices	0	0	0	10,922,411,523	10,922,411,523
Inst Agreements	1,482,983,591	2,576,208,676	693,960,271	0	4,753,152,538
TDAs	2,086,712,562	0	5,080,112,450	0	7,166,825,012
Deferrals	0	0	0	556,685,035	556,685,035
Non-Masterfile	16,710,785	0	38,991,829	0	55,702,614
Total Yield	**$3,586,408,938**	**$2,576,208,676**	**$5,813,064,550**	**$11,479,096,558**	**$23,454,778,722**
FTEs Realized	2,307	2,886	11,673	359	17,225
Dollars Oblig.	$92,683,964	$99,890,069	$577,993,265	$23,162,050	$793,729,148
FY 1995	**ACS**	**SCCB**	**CFf**	**non-functional**	**Totals**
Notices	0	0	0	11,761,903,605	11,761,903,605
Inst Agreements	1,678,055,421	2,915,083,457	785,243,884	0	5,378,382,762
TDAs	3,382,277,985	0	4,035,296,901	0	7,418,574,886
Deferrals	0	0	0	525,645,764	525,645,734
Non-Masterfile	19,605,076	0	45,745,175	0	65,350,251
Total Yield	**$5,079,938,482**	**$2,915,083,457**	**$4,866,285,960**	**$12,287,549,369**	**$25,149,857,238**
FTEs Realized	2,410	3,461	12,148	346	18,365
Dollars Oblig.	$94,271,975	$122,137,880	$622,585,074	$30,553,302	$869,548,231

Note:
1) Costs only includes direct labor, benefits, enforcement expenses, locator services and travel.
2) ACS's costs included all the above plus, all related telecommunications' obligations. Telecommunications are held in a different appropriation other than Tax Law Enforcement.
3) ACS's enforcement expenses and locator services' obligations are held under the Collection Field function's category.
4) The source of both the dollars obligated and FTEs realized are from the Service's Automated Financial System (AFS).
5) The source of the dollar yield was the Collection Activity Reports (CAR)
6) The largest portion of the TDA and Installment Agreement offset yield is posted to ACS. Accordingly, resources and FTEs are not consumed in this part of the ACS operations but dollar yield is included.
7) Above FTE and obligation figures are reported at the Management Activity Code (MAC) level, not Budget Activity Code (BAC) level as report in the President's Budget.
8) "Nonfunctional" collections are not credited to any specific collection function.

Question: Could you provide a detailed explanation for the record?

Answer: Over the last two fiscal years (FY 1994 and FY 1995), Collection's FTE levels have risen. Our most dramatic increase was in closure of Taxpayer Delinquent Accounts (TDAs) within the Automated Collection System telephone sites. For the majority of FY 1995, ACS enjoyed the ability to maintain staffing by using their available FTEs to hire. During the last quarter of the FY 1995, due to anticipated budget reduction, hiring in Collection ceased.

	FTEs Realized	$'s Obligated	$'s Yield
FY 1994	17,225.33	$781 Million	$23.4 Billion
FY 1995	18,365.16	$861 Million	$25.1 Billion
Percent Increase	6.62%	9.58%	7.27%

Question: A high proportion of IRS's accounts receivable are more than 5 years old. What are the causes of this and what can be done to prevent it?

Answer: Once assessed, an account receivable remains on the books for 10 years. In many cases, the taxpayer cannot pay without creating a hardship. In such cases, IRS is legally prohibited from enforcing collection. In other cases, corporations are defunct, individuals die without sufficient assets to pay the taxes, and taxpayers seek protection from the bankruptcy courts. All of these situations cause an account to age.

IRS is constantly exploring better ways of quickly addressing payment from those taxpayers who agree on how much they owe and have the ability to pay. (More detailed information about some initiatives is included below in response to questions relating to IRS Collections Strategy.) But a large portion of our receivables will continue to age because there is no source of collection and bad debts cannot be taken "off the books" as private businesses do.

Question: From fiscal year 1992 through 1994, the number of tax liens filed by IRS decreased by about 44 percent. Is there a significant reason, or reasons for this decrease?

Answer: Yes, there are two reasons. First, IRS realized that taxpayers who entered into an installment agreement were being "punished" when IRS filed a notice of lien. We decided to forego filing a lien when a taxpayer owing less than $10,000 entered into an agreement to pay in full within a short time.

The second reason was a lack of funds to pay filing expenses. Notices of lien and certificates of release must be filed in the local offices specified by state law. Many states have significantly increased these filing fees, thus reducing the number of notices IRS can file with its limited enforcement funds (reduced by almost $5 million).

Collections Strategy

Question: Our tax system is based on "voluntary compliance," yet collection efforts are necessary to go after those individuals and institutions which fail to fully comply with our tax laws. What are IRS goals and what changes does IRS plan to make to its collection process to make it more effective and efficient over the next 2 to 3 years?

Answer: Better technology for ACS With the acquisition of predictive dialers for our ACS operation, employees will be more productive. In addition, expanded use of Voice Response Units (VRU's) will free employees from handling the more routine taxpayer contacts.

Better selection of case treatments The Inventory Delivery System (IDS) is an automated workload perfection and control system. This automated system will make cases "Fit for Use" by locating taxpayers, their assets, and their telephone numbers and determining the most appropriate collection treatment by analyzing taxpayers' compliance history, ability to pay, type of tax, and amount owed. This should make our collection employees more productive. Pilot is scheduled for July 1996, with nationwide implementation in January 1997.

Better productivity through automation The Integrated Collection System (ICS) has yielded a 30 percent increase in revenue officer productivity. Expansion of ICS to additional districts will expand this benefit. With sufficient funding, nationwide installation will be completed in FY 1998.

Better placement of revenue officers The Collection Resource Database and Information Tracking System (CREDITS) will enable us to evaluate and measure each district's Collection Field function performance, based upon staffing, productivity and disposition of available inventory. CREDITS will perform "what-if" projections to correct staffing imbalances among districts. It allocates staff and resources only to those districts where the analysis shows they will be most productive.

Question: Does IRS have a comprehensive long-term strategy for making its collection programs more effective and efficient?

Answer: Yes. Its elements include:

- Adopting 10 Collecting Principles, which guide all our decisions.
- Decreasing the number of notices, shortening the notice period, and making earlier telephone calls.
- Addressing payment at the time deficiencies are determined.
- Simplifying access to installment agreements for those taxpayers who need them.
- Emphasizing field enforcement against taxpayers who are repeatedly delinquent.
- Enhancing cooperation with state taxing authorities, which better serves the taxpayer and conserves resources.
- Implementing and expanding the Integrated Collection System (ICS) and the Inventory Delivery System (IDS), which will improve the quality and quantity of collecting case work.

Question: IRS's accounts receivable has been recognized by OMB and GAO as a high-risk area since 1988. What has IRS done since then to get accounts receivable off the high-risk list?

Answer: In response to this identified weakness, IRS developed a four-part strategy to address it. Its components are:

1. Determine the correct composition of the accounts receivable inventory.

   Since 1988 we have done extensive analyses of our accounts receivable. IRS and GAO are therefore able to determine more accurately which of our receivables can reasonably be expected to produce revenue and which, while legally owed, are not validly reportable as assets in the financial statements.

2. Ensure the accuracy of assessments that are included in the inventory.

   Both taxpayers and the IRS make mistakes which can result in erroneous accounts. We have instituted new procedures and computer analyses which have dramatically reduced erroneous accounts (almost $300 billion between FY 1992 and 1995). In addition, the increased use of electronic forms of payment has helped get taxpayers' payments properly posted to their accounts. In FY 1995, $232 billion was deposited this way, up from $6.2 billion in FY 1994.

3. Improve the currency of the inventory.

   Numerous changes have been made to see that payment is addressed as quickly as possible when it becomes clear that a taxpayer owes additional taxes. Examples include:

   - Decreasing the number of notices, shortening the notice period, and instituting earlier telephone contacts.

- Increased emphasis on resolving payment issues at the close of an examination.

- Expanded installment agreement authority to quickly resolve accounts for those taxpayers who are unable to pay in full immediately.

- Increased emphasis on enforcement actions against those taxpayers who are repeatedly delinquent.

4. Increase the collection of accounts in the inventory.

Several initiatives are underway which will increase the productivity of our collection employees. These include:

- Better technology for ACS With the acquisition of predictive dialers for our ACS operation, employees will be more productive. In addition, expanded use of Voice Response Units (VRU's) will free up our employees from handling the more routine taxpayer contacts.

- Better selection of case treatments

  The Inventory Delivery System (IDS) is an automated workload perfection and control system. This automated system will make cases "Fit for Use" by locating taxpayers, their assets, and their telephone numbers and determining the most appropriate collection treatment by analyzing taxpayers' compliance history, ability to pay, type of tax, and amount owed. This should make our collection employees more productive. Pilot is scheduled for July 1996, with nationwide implementation in January 1997.

- Better productivity through automation The Integrated Collection System (ICS) has yielded a 30 percent increase in revenue officer productivity. Expansion of ICS to additional districts will expand this benefit. ICS will be operational in 17 districts in FY 1996. With sufficient funding, nationwide installation will be completed in FY 1998.

Question: What else needs to be done?

Answer: We continue to work with GAO to fine tune our reporting systems to ensure that the financial reports meet their standards. And, as noted elsewhere in the record, we have numerous initiatives underway to improve our collecting operation.
IRS recently postponed its Taxpayer Compliance Measurement Program (TCMP). Since the 1960s, TCMP has provided statistically valid data for use in measuring taxpayer compliance and in updating discriminant function (DIF) formulas used to score returns as to their audit potential. The last TCMP covered tax year 1988.

Question: IRS recently postponed its Taxpayer Compliance Measurement Program (TCMP). Since the 1960s, TCMP has provided statistically valid data for use in measuring taxpayer compliance and in updating the discriminant function (DIF) formulas used to score returns as to their audit potential. The last TCMP covered tax year 1988. Without TCMP, what does IRS have to measure compliance and update its DIF formulas?

Answer: Without TCMP the IRS does not have other data immediately available to measure compliance and update its DIF formulas. Existing DIF formulas were derived from data from the most recent TCMP surveys - Tax Year 1987 returns for corporations and 1988 returns for individuals.

Question: Absent TCMP, what are your plans for measuring compliance and updating DIF?

Answer: Since the FY 1994 TCMP was canceled, we have been investigating alternative options for capturing reliable compliance information. We are in the process of procuring the services of a consulting services firm to reassess the program options available to us in lieu of TCMP. The firm will be tasked to investigate and evaluate any and all relevant data capture options which IRS might use to meet the compliance data needs.

Question: Have you developed or are developing replacements for DIF in order to objectively select those tax returns that are most in need of audit?

Answer: The IRS has conducted significant research on alternatives for developing workload selection systems which might serve as replacements for DIF and will continue its research efforts in this area. To date, none of the techniques that has been identified and investigated was shown to perform better than, or even as well as, DIF. In the absence of new TCMP survey data, we will be exploring whether Examination's operational examination results can be used in conjunction with other taxpayer information to develop a workload selection system. Any system so developed will have a built-in bias towards the same kind of noncompliant returns being currently examined and may not be objective enough to replace DIF in terms of identifying new noncompliant returns most in need of audit.

Question: Every year, IRS must attempt to resolve disputes with taxpayers over tax liabilities. Traditionally, IRS has done this through its office of appeals. Since the early 1990s, IRS has been attempting to implement various Alternative Dispute Resolution (ADR) methods to improve the cost-effectiveness of dispute resolution within IRS, as well as, to reduce the burdens and costs imposed on taxpayers, particularly large corporations. What are the Alternative Dispute Resolution methods you are using? What are the results so far of each method in terms of costs, time, and tax assessments?

Answer: I would like to insert for the record a memo prepared by the IRS Appeals function relating to dispute resolution techniques.

APPEALS DISPUTE RESOLUTION INITIATIVES

EARLY REFERRAL

Summary: The early referral procedures allow taxpayers, whose returns are under examination, to request the transfer of a developed, unagreed issue to Appeals while the other issues in the case continue to be developed in Examination. Revenue Procedure 96-9, 1996-2 I.R.B. 15, contains the final procedures that allow taxpayers to request early referral of an issue from Examination to Appeals. The early referral procedures have been used in over 20 cases, involving $2 billion.

Purpose: The purpose of early referral is to resolve cases more quickly. The early resolution of a key issue may encourage taxpayers and the Service to agree on other issues in the case. Early referral may save time because Appeals and Examination are working simultaneously.

Appropriate issues for early referral include those that:

- If resolved, can be expected to result in a quicker resolution of the entire case
- The taxpayer, Examination, and Appeals all agree should be referred to Appeals early
- Are not designated for litigation

Industry Specialization Program (ISP) issues and Appeals Coordinated Issues (ACI) can be referred to Appeals for early resolution under the early referral procedures.

A closing agreement will be used to secure a taxpayer's agreement to the early referral issue. Early referral is available for issues in Joint Committee cases, but any closing agreement will not be finalized until after Joint Committee review.

Taxpayers initiate early referral on an unagreed issue by making a request to the district. The district and Appeals must concur for the request to be approved.

Early referral does not apply to issues for which the taxpayer has filed a request for Competent Authority assistance, or issues for which the taxpayer intends to seek Competent Authority assistance. Taxpayers are encouraged to request the simultaneous Appeals/Competent Authority procedure described in section 8 of Revenue Procedure 96-13, 1996-3 I.R.B. 31. If a taxpayer enters into a settlement with Appeals (including an Appeals settlement through the early referral process), and then
requests Competent Authority assistance, the U.S. competent authority will endeavor only to obtain a correlative adjustment with the treaty country and will not take any actions that would otherwise amend the settlement.

Early referral is:

- Optional
- Requested by the taxpayer
- Approved by both Appeals and the District
- Initially limited to Coordinated Examination Program cases

Early referral and section 6621(c) "hot" interest:

- Early referral does not trigger "hot" interest under section 6621(c)
- A notice of proposed adjustment, Form 5701, will be issued by Examination on the early referral issue
- Since the Form 5701 is not a 30-day letter, there will be no "hot" interest until a 30-day letter is issued by the district at the completion of the examination

Effect of conclusion of examination: If Examination issues a preliminary notice of deficiency ("30-day letter") with respect to any issue that is not accepted for early referral, all unagreed issues, including any early referral issues that have not yet been settled by Appeals, will be combined in the 30-day letter. Likewise, if no issues in the case remain unagreed except for the early referral issues that are pending in Appeals, a 30-day letter will be issued solely with respect to the early referral issues. The issuance of the 30-day letter generally will constitute the first letter of proposed deficiency which allows the taxpayer an opportunity for administrative review for purposes of the increased underpayment rate for large corporate underpayments under § 6621(c).

If no issues in the case remain unagreed except for an early referral issue that could not be settled by Appeals and has been returned to Examination, no 30-day letter will be issued. Rather, a statutory notice of deficiency ("90-day letter") will be issued, which will start the period for the increased underpayment rate for large corporate underpayments under § 6621(c).

TEST OF EMPLOYMENT TAX EARLY REFERRAL PROCEDURES

The early referral employment tax Announcement 96-13, 1996-12 I.R.B 33 ("Announcement"), applies the provisions of the early referral revenue procedure to employment tax issues, as described below, on a one-year test basis.

Summary: Taxpayers who are being examined can request early referral of one or more employment tax issue(s) from district compliance functions ("the District") to Appeals. Early referral of the employment tax issue(s) does not alter the District Director's authority to audit the taxpayer's returns nor limit or expand the District Director's authority to resolve any issues, including the authority in Delegation Order No. 236 (Rev. 2), 1996-21 I.R.B. 7. The employment tax early referral procedures are effective for taxpayer requests made during the one-year test period beginning on March 18, 1996.

Purpose: The early referral employment tax procedure is part of the Service's strategy to improve employment tax administration for all taxpayers, including small business owners. The

purpose of early referral for employment tax issues is to resolve employment tax issues more expeditiously through simultaneous action by the District and Appeals. A taxpayer may request early referral of any developed, unagreed employment tax issue under the jurisdiction of the District Director arising from an audit. The District will continue to develop other issues arising in the audit.

Early referral for employment tax issues is:

- optional;
- initiated by the taxpayer;
- subject to the approval of both the District Director and the Assistant Regional Director of Appeals (ARDA); and
- not limited to Coordinated Examination Program (CEP) taxpayers.

Appropriate issues for early referral include issues that:

- If resolved can reasonably be expected to result in a quicker resolution of the entire case; and

- Both the taxpayer and District Director agree should be referred to Appeals early.

Examples of employment tax issues that may be appropriate for early referral include:

- Worker Classification Issues, including whether a worker is an employee or independent contractor under the common law; whether a worker is a statutory employee or statutory non-employee; whether the taxpayer is entitled to relief under Section 530 of the Revenue Act of 1978; whether section 3509 rates are appropriate; and whether the taxpayer qualifies for an interest-free adjustment.

- Other Issues, including whether certain payments are excepted from the definition of "wages" (e.g., a fringe benefit that would be excludable from the employee's gross income under section 132); and whether certain services are excepted from the definition of "employment."

Early referral is not appropriate for all employment tax issues.
In addition, because taxes under the Self-Employment Contributions Act (sections 1401-1403) are income taxes, rather than employment taxes, issues arising under these sections are not included in the early referral procedure.

SIMULTANEOUS APPEALS/COMPETENT AUTHORITY PROCEDURE

Background: The Service recently published Rev. Proc 96-13, 1996-3 I.R.B. 33, relating to assistance provided by the U.S. competent authority. Section 8 of the Revenue Procedure specifies the circumstances under which the simultaneous Appeals/Competent Authority procedure may be requested, when access to the process may be denied or terminated, and describes the role of Appeals in the competent authority process if the request is approved.

Summary: The simultaneous Appeals/Competent Authority procedure expedites the resolution of competent authority issues by encouraging taxpayers to request the participation of Appeals in the competent authority process. As of June 1, 1996, two simultaneous Appeals/Competent Authority cases have been completed and eight other cases are in process.

The simultaneous Appeals/Competent Authority procedure includes the following:

- Taxpayers are encouraged to request a pre-filing conference with Appeals and the U.S. Competent Authority to explore using the new procedure

- Taxpayer involvement in the competent authority process

- Post-competent authority procedures retaining rights to negotiate a settlement with Appeals

Scope of Request: Taxpayers may request the participation of Appeals in the competent authority process when:

- Examination has proposed an adjustment with respect to an issue which the taxpayer wishes to submit to competent authority; or

- The taxpayer files a protest and decides to sever the issue and seek competent authority assistance while other issues are referred to or remain in Appeals

Requesting Appeals Involvement: Appeals involvement may occur under two circumstances:

- By taxpayer request, or

- By request of the United States competent authority

Cases In Examination:

A taxpayer who requests competent authority assistance with respect to an adjustment proposed by Examination may simultaneously request Appeals consideration of the issue.

Cases Protested To or Already In Appeals:

As soon as practicable after the first Appeals conference, the taxpayer may request that the competent authority issue be referred to the U.S. Competent Authority. In the competent authority request, or at a later time, the taxpayer may also request the continued participation of Appeals in the competent authority process.

TEST OF MEDIATION PROCEDURES

Summary: Appeals is testing mediation as an extension of the Appeals process. The procedures will allow taxpayers, whose cases are not docketed in any court and are already in the Appeals administrative process, to request mediation as a dispute resolution technique. Mediation is a negotiation between the parties assisted by an objective and neutral third party mediator who has no authority to impose a decision. Mediators can come from Appeals or outside the IRS. Co-mediators can also be used.

Purpose: The purpose of the mediation procedures is to attempt to resolve issues while the case is in nondocketed status. Mediation is intended to apply only after good faith negotiations in Appeals have been unsuccessful. Factual issues, such as valuation and transfer pricing issues, are appropriate for mediation.

Announcement 95-86 was published on October 30, 1995, beginning the one-year test of mediation in Appeals.

The test of mediation is:

- For a one-year period

- Optional, with the taxpayer and Appeals negotiating their own settlement and the mediator acting as a facilitator

- Requested by the taxpayer or Appeals when Appeals and the taxpayer cannot reach agreement on an issue after settlement discussions are unsuccessful

- Agreed to by the taxpayer and the Assistant Regional Directors of Appeals-Large Case

- Limited to Coordinated Examination Programs (CEP) cases assigned to Appeals Team Chiefs

Mediation may be available in the following cases:

- Early referral issues

- Joint Committee cases, but any agreement will not be finalized until after Joint Committee review

Mediation cannot be used if the issue is:

- Designated for litigation or docketed before the United States Tax Court

- An Industry Specialization Program (ISP) issue or an Appeals Coordinated Issue (ACI). ISP issues are listed in Exhibit 8700-1 of the Internal Revenue Manual.
  (**Note:** ISP and ACI issues can go to Appeals under Early Referral)

- A competent authority issue

Benefits of mediation: Unlike arbitration, mediation is a non-binding process. The mediator does not have settlement authority -- the parties to the mediation do. Mediation is particularly useful for certain large case issues that are highly factual, such as transfer pricing or valuation issues. Mediation facilitates communication and will also enhance our services to taxpayers and tax practitioners.

Beginning the process: If the taxpayer and Appeals agree in principle to mediate one or more issues, the parties will prepare a concise, written mediation agreement. We believe that only a short period of time will be required for the parties to prepare the mediation agreement and to select the mediator(s). Appeals and the taxpayer will share the expenses of the mediator; however, if the parties select a mediator from Appeals, the National Office Appeals will assume all of the mediator's expenses. We expect that the actual mediation sessions will be concluded within one or two days at the most for more complex issues.

Mediation is:

- Cost-efficient
- Speedy
- Flexible

The Appeals mediation procedure was recently used to resolve a case assigned to an Appeals Team Chief. In the DuPont case, an agreement to mediate was first negotiated and signed by the parties using the model procedure in Announcement 95-86, Exhibit1. The IRS and DuPont agreed to use Samuel B. Sterrett, a former U.S. Tax Court Judge, and an Appeals Team Chief from a different IRS region as co-mediators. The parties reached an agreement after a single twelve-hour mediation session. Taxpayers can expect the entire mediation process to take two months.

ADVANCE PRICING AGREEMENTS

Appeals representatives participate on Advance Pricing Agreement (APA) teams, principally when the taxpayer has prior years in Appeals jurisdiction. There are currently over 90 APA requests in different stages of development; Appeals has representatives assigned to 30 of these APA requests.

COMMISSIONER'S ART ADVISORY PANEL

The Art Advisory Panel assists the Internal Revenue Service by reviewing and evaluating the acceptability of property appraisals submitted by taxpayers in support of the fair market value claimed on works of art involved in federal income, estate and gift tax cases in accordance with the Internal Revenue Code.

All taxpayer cases selected for audit with a claimed value of $20,000 or more must be referred to National Office Art Appraisal Services for review by the Commissioner's Art Advisory Panel. Our Art Advisory Services provides the staff support and coordination for the Art Advisory Panel and also reviews appraisals of taxpayer cases on art works not referred to the Panel.

The Art Advisory Panel has been in existence since 1968 and has proven to be an effective and efficient system to monitor the area of art valuation claims.

The members of the panel, twenty-five renowned art experts who serve without compensation, have recommended adjustments of over $493 million on taxpayer's claims in the past eighteen years. In 1995 alone, over 800 items were reviewed and $40 million in adjustments were recommended, representing a 24% reduction on overvalued items in charitable contributions and a 65% increase on undervalued items in estate and gifts. (Panelists are not told whether an item is being valued for a contribution deduction or for an estate or gift tax valuation.)

ADVANCE VALUATION OF ART WORKS

Valuing art work is important for such tax purposes as estate and gift taxes and the charitable contribution deduction. Rev. Proc. 96-15, 1996-3 I.R.B. 41, tells taxpayers how to obtain IRS review of a taxpayer's valuation of a work of art before filing a return. The Service in Announcement 96-5, 1996-4 I.R.B. 99, included the advance valuation procedure on the published priority guidance list of items that improve taxpayer rights. A taxpayer that complies with the provisions of the revenue procedure may rely on the Statement of Value obtained from the Service in completing the taxpayer's income tax return that first reports the contribution of the art work.

COLLECTION APPEALS PROGRAM

The Internal Revenue Service started a new Collection Appeals Program on April 1, 1996. The program is limited to appeals of seizures, levies, and liens. These appeals will be handled by the Appeals office, which is separate from the local district office, Automated Collection System (ACS) site or Service Center that is taking these actions.

If a taxpayer is told by a Collection employee that a lien, levy or seizure action will be or has been taken, the taxpayer may appeal the action.

Taxpayers may make an oral request for an appeal on ACS cases. For cases where taxpayers are dealing with revenue officers, a written request for an appeal is required on Form 9423, Collection Appeal Request. In either case, before Appeals consideration, the taxpayer must first discuss the issue with a Collection manager.

Pub. 594, Understanding the Collection Process, has been revised to reference this new appeal right. Pub. 1660, Collection Appeal Rights for Liens, Levies and Seizures, has also been revised to give information to taxpayers who request more detailed information about their appeal rights. In addition, the back of Form 9423 contains basic information about appeals on cases handled by revenue officers.

Question: GAO said, in its report on the examination of IRS' fiscal year 1994 financial statements, that it can take IRS almost 3 years after a tax return has been filed to assess a taxpayer for differences between the income reported on that return and third party information, such as that reported on 1099's or W-2's. Is that correct?

Answer: Although the Service does post a few assessments as late as three years after a return is filed, the vast majority are assessed much earlier. The three year assessment window is the maximum time by law to assess additional tax; not the norm. Differences between income reported on a return and third party information are generally identified and resolved within two years after the return is filed. Furthermore, our goal is to accelerate such contacts so that they occur before the subsequent year's return is due.

Question: What specific actions have you taken to speed up the matching process?

Answer: The Service has already begun to accelerate its matching efforts dealing with information returns. Thus far, we have been able to accelerate issuance of Nonfiler and Underreporter notices by three months. Beginning with the Tax Year 1995 program, another three month acceleration should occur for notices issue for underreporter. Tax Year 1995 Nonfiler notice issuances will begin late this year; thus, the majority of initial nonfiler notices will issued before the next year's tax return is due.

Future acceleration plans will enable us to contact most underreporters prior to their next year's returns being due. The Service's ultimate Tax Systems Modernization (TSM) vision will enable us to resolve most discrepancies shortly after the taxpayer files a return or, in some instances, resolve the problem as part of the processing of the return.

Question: What specifically is hindering your efforts to more timely match tax returns with third party information, and what are you doing to overcome these obstacles?

Answer: Though the vast majority of information returns are received on magnetic media, obviating the need for transcription, these filings must still be received, processed and fed into our Document Matching system at our Martinsburg Computing Center (MCC). Those receipts filed via paper must be processed through our returns processing pipeline, which must also process tax returns. To accelerate processing magnetic media filings, additional staffing would be needed to be provided to MCC. We are also working with the Social Security Administration to accelerate that agency's submission of wage information from Form W-2 filings. To mitigate the problem of paper filings, we are promoting electronic filing of information returns through a variety of means.

Ensuring the accuracy of the data received is another consideration. Although most of the billion information returns received each year are accurate, we and the submitters need time to perfect erroneous submissions before we begin matching information returns against tax return filings. Otherwise, we risk issuing erroneous notices which increases the burden on compliant taxpayers.

Question: For over 20 years, taxpayers' compliance in paying taxes owed, both voluntarily and after IRS enforcement has hovered around 87%. IRS has set a goal of reaching 90% compliance by the year 2001 in collecting taxes owed. What is the current compliance percentage?

Answer: Compliance percentage may be somewhat misleading. The IRS established a 2001 goal of achieving a 90% Total Collection Percentage (TCP). TCP represents the total collections of income and employment taxes through voluntary compliance and enforcement as a percentage of the total tax dollars due and owing. The term "compliance" is used solely in reference to "voluntary compliance" and therefore not compatible with the 2001 goal of 90% TCP.

Our most recent estimate for the Total Collection Percentage is 87.6%. This is only an

estimate and is based on data that are several years old. Currently, there is no way to determine a real time TCP. The Service is working to develop a more real time estimate of TCP.

Question: What has IRS done to improve compliance and what else is needed to ensure that 90% compliance is attained by 2001?

Answer: The IRS is continually working to improve compliance. Enforcement programs and processes along with taxpayer education and outreach programs undergo constant evaluation to determine which are working and which need to be reworked. A vital component of any compliance program (enforcement or education) is not only the collection of dollars but also the overall effect the program has on taxpayer compliance (i.e., how does the program change taxpayer behavior beyond the individual(s) it directly touches?).

This impact is difficult to measure. However, with the recent implementation of the National Office of Research and Analysis (NORA - 1 office) and the District Offices of Research and Analysis (DORAs - 33 offices), the Service is approaching noncompliance in a uniquely comprehensive and methodical fashion so that taxpayer impact can be maximized. The 33 field offices, under direction from the NORA, will study the tax gap and collaborate on identifying and profiling taxpayer market segments and on identifying and testing potential enforcement and nonenforcement initiatives to treat noncompliance. Once tested these treatments or programs will compete with existing programs for Service resources. If these new treatments prove more effective, they will replace, in part or in whole, existing compliance programs. The process through which this evaluation and prioritization takes place is the Compliance Planning process. The most effective programs will be funded each year through the Compliance Plan. This Plan, a multi-year, compliance-wide document will be in effect for FY 1997.

In conjunction with this process, the Service has focused its mission to have the greatest impact on compliance. Wholesale approaches to noncompliance in preference to one-on-one taxpayer contacts and nonenforcement or education in preference to enforcement. These approaches, not only promote more cost effective treatments, but, are likely to have a greater impact on overall compliance.

Question: In a September 1994 report on the Coordinated Examination Program (CEP), GAO said that IRS ended up assessing only 22 percent of $32,4 billion in additional taxes recommended from fiscal year 1983 through fiscal year 1991. In an October 1995 report on large corporations that were not part of this program, GAO said that IRS assessed only 27 percent of $8.6 billion in taxes recommended from fiscal year 1988 through fiscal year 1994. An August 1995 study done by IRS's national office of appeals reached the same general conclusion--only 20 percent of $64 billion in additional taxes recommended from audits of large corporations in fiscal years 1989 through 1993 was eventually assessed and collected. Among other things, GAO noted that IRS's examination function is measured by the amount of recommended taxes from audit while the appeals function is measured by the amount of recommended taxes settled without litigation. Considering the vast resources required of both IRS and corporate taxpayers during these audits and Appeals, can you explain why so few of the recommended dollars are assessed and eventually collected?

Answer: GAO, in their September 1994 Report, recommended that the IRS use a 22.1 percent collection rate when estimating taxes which will ultimately be collected from CEP examinations. It was their contention that 22 percent of the recommended taxes in fiscal years 1983-1991 were collected.

We do not agree with GAO's conclusion or with using a 22 percent collection rate. It does not accurately reflect CEP productivity or effectiveness. GAO's presentation of the data, in arriving at the 22 percent collection rate, distorts accomplishments and is based on old data that fails to take into account more recent trends which reflect many CEP initiatives implemented since 1990.

In determining ultimate collections, GAO went beyond the collections related only to the

recommended tax. They included all post closure transactions which may or may not have had anything to do with the recommended deficiencies. Many of the post-closure abatements were beyond the control of the Service. They include such items as taxpayer net operating loss (NOL) and credit carry backs as well as post closure abatements which have no relationship with the recommended deficiencies resulting from the examinations.

The IRS has no control over these items. They offset, and serve to reduce Examination deficiencies and collections. An example of this is an Examination recommended agreed deficiency of $5,000,000 subsequently reduced by either an allowable taxpayer claim, unrelated to the original issue(s), or a NOL carryback wiping out all or some of the $5,000,000 deficiency. If the NOL reduced the $5,000,000 deficiency to $1,000,000, then the collection rate, according to GAO, is only 20 percent. Does this mean that the $5,000,000 agreed deficiency was not productive? Of course not. It prevented the Treasury from paying out $4,000,000. Events, beyond the control of the Service should not play a role in measuring the success of a program.

A second problem with the GAO data is the age of the data. They use CEP closures going back to 1983 through 1991. This includes data from examinations that took place in the 1970's and 1980's. Since 1990, the CEP Program has made numerous changes implementing many initiatives which changed the way we perform examinations and the results of the examinations. Emphasis is on resolving issues at the lowest level. Some of these changes include: improving communication and cooperation with the taxpayers; working closer with Chief Counsel and Appeals; expanding the Industry and Issue Specialization Program; and, emphasizing alternative dispute resolution.

The results of these changes can be seen in the statistical data for agreed CEP deficiencies and examinations at the Examination level.

Fiscal Year	Percentage of Agreed Deficiencies	Percentage of Agreed and Partially Agreed Examinations
1992	14.0%	62.1%
1993	18.3%	70.7%
1994	23.9%	74.9%
1995	19.6%	77.6%

Recent Appeals statistics show that their recovery rate on unagreed dollars from CEP cases in Fiscal Year 1995 was 24 percent. Additional amounts are assessed from those cases which are closed by Counsel settlement or after trial which are not counted in this statistic. Just taking into account the Appeals recovery rate and the percentage of Examination agreed deficiencies is greater than 22 percent. The current percentage is closer to 40 or more percent.

We are also improving the databases and information available to better measure CEP effectiveness. The information is collected on our Enforcement Revenue Information System (ERIS) which tracks recommended deficiencies (agreed and unagreed) by year through to their collection. Recent data from 1992 through 1995 suggests that the collection rate is much higher than 22 percent and is in the range closer to 40 percent or more.

GAO also failed to consider is revenue protection. The CEP plays an important role in protecting revenue from being paid out of the Treasury which do not reflect in collection statistics. A great deal of resources is committed to auditing CEP claims and returns with large credit and NOL carry forwards. In Fiscal Year 1995, nearly $7 billion in CEP taxpayer claims were disallowed while $3.1 billion in affirmative claims were allowed. Similarly, approximately $2.6 billion in credit carry forwards and $3 billion in NOL carry forwards were reduced. These are current dollars (claims) and future dollars (credit and NOL carryovers) which were protected and not paid out of Treasury. Without this protection, the collection rate could wind up as a refund rate.

Question: What is IRS doing to ensure that (1) the Examination and Appeals functions are working together effectively and (2) IRS is collecting the right amount of tax at the least cost to the corporation being audited and the American taxpayer in general?

Answer: Examination and Appeals are communicating and coordinating their efforts more effectively. In the Industry Specialization Program, Examination and Appeals specialists along with Counsel team members work together to establish consistent and uniform treatment of industry issues.

Pre- and post-conference procedures have been instituted whereby Examination personnel to meet with Appeals conferees with respect to the unagreed issues. The pre-conference allows for frank and open discussions and adds to the Appeals' knowledge of the issues. It also provides Examination with the opportunity to share their views. The purpose of the post-closing conference is to discuss the settlement reached and the subsequent impact on the taxpayer.

Limited settlement authority was given CEP case managers in 1990 and expanded in 1996. Examination can follow and apply Appeals settlements with respect to the same issue and taxpayer that had been settled by Appeals on a previous examination. This prevents wasting resources by continually raising the same issue cycle after cycle. Additionally, beginning in 1996, CEP managers were given further authority to settle industry specialization program coordinated issues that have Appeals settlement guidelines.

Training for the new and revised settlement authority is being given jointly to Examination and Appeals personnel. Instructors were selected from both functions

Appeals and Examination are testing a new procedure in our Western Region. Prior to offering a settlement to the taxpayer, Examination will be allowed to meet with Appeals to discuss the settlement and provide their opinion or other information that may impact on the settlement.

We are communicating and working more closely with the taxpayers to ensure examinations are both effective and efficient and to reduce burden. We require greater taxpayer participation in the audit process and mandate that taxpayers be involved in the planning process for each examination because they, like the Service, have a vested interest in the examination. In many district offices joint district/taxpayer quality improvement projects are being conducted. By working more closely with the taxpayer, the audit is more efficient and more focused. This saves resources for both the Service and the taxpayer.

We meet regularly with taxpayer practitioner organizations such as the American Institute of Certified Public Accountants, the American Bar Association and the Tax Executives Institute. In many instances members of these organizations and taxpayer representatives have served on our task forces. We work closely with industry organizations to effect resolution of issues and to develop consistent and uniform Service positions with respect to industry issues.

Question: Although the Enforcement Revenue Information System (ERIS) now gathers data on the assessment and collection of recommended dollars, IRS, when reporting results to congress, still reports in terms of dollars recommended by examination and cases settled by appeals. What are IRS' plans for reporting examination-related assessments and collections to congress?

Answer: Currently, measures relating to examination assessment and collections are included in the FY 1997 performance measures. Under the requirements of the Government Performance and Results Act of FY 1993, the IRS will be required to report on these measures in the FY 1997 Annual Performance Plan report portion of the FY 1999 Budget.

Question: What are IRS' plans for using assessments and/or collections as performance indicators for its examination and appeals programs?

Answer: Work is underway to examine all field related performance indicators, including

those for the examination and appeals programs. We expect that final decisions on which performance measures will be used for the examination and appeals programs will be made prior to the next Congressional budget submission.

Question: How are examination and Appeals using ERIS data in managerial decisions?

Answer: Examination uses ERIS data to convert "dollars recommended" to "dollars collected". They are then able to allocate resources across categories of returns taking into account the eventual collectibility.

Compliance Research is using ERIS data to place all compliance functions on a single metric – dollars collected. Using that metric, along with the cost of working cases, in the Resource Allocation Model, resources will be allocated to functions, programs within functions and geographic locations. It is also used to develop estimates of total enforcement dollars collected by the IRS.

The appeals component of ERIS is undergoing acceptance testing currently and should be available for use by Appeals shortly.

In recent years the IRS has taken steps to reduce fraud. I would like to review some of the issues that have arisen with regard to those efforts. In 1995 IRS took several steps to identify questionable returns, but encountered several problems in implementation. A large part of the Effort utilized scrutinization of Social Security numbers. I believe you found that many of the cases selected for review involving missing or invalid Social Security numbers were unproductive and resulted in inefficient uses of resources.

Customer Service

Question: IRS has traditionally provided customer service at walk-in sites that provide copies of forms and publications, help in preparing returns, and other forms of assistance. It is our understanding that in 1996, IRS closed many walk-in sites and reduced the operating hours and the kinds of service available at many of the sites that remained open. Is that a correct assessment?

Answer: Yes. At the end of the 1995 filing season we had 535 offices open for walk-in assistance. Regional and District Management consolidation, rent containment, staff reallocations, and other managerial decisions reduced that number to 418 offices providing walk-in Service as of 5/3/96.

Question: Were these closings and reductions in service merely a response to funding reductions or do they reflect a shift in IRS's overall strategy for providing service?

Answer: Some of our offices were closed due to an anticipated shortfall in the rent budget. Other closures were made to reflect a shift in overall strategy.

Question: If the latter, would you please explain its new strategy?

Answer: Operating decisions were made, in conjunction with the business vision announced in 1993, to provide less walk-in assistance to enable us to shift some of our labor intensive paper and face-to-face operations to more productive telephone or Internet environments. As noted by GAO and others, the number of taxpayers trying to obtain telephone assistance exceeds our ability to respond. To address this problem, we are changing the way we do business in our communications to taxpayers, increasing our telephone level of access, and providing automated options when appropriate. Our goal is to create service similar to other financial institutions like banks and credit unions.

Question: Does IRS have any reliable data on the impact of these closings and service reductions on taxpayers?

Answer: From the beginning of this fiscal year through 05/04/96, 4,375,553 taxpayers came to

our walk-in offices and received assistance. Through this same period last year 5,072,416 came to our offices and received assistance. Our efforts to provide more assistance were successful. Our telephone assistors answered 4.3 million more calls as of 5/11/96, and we had over 59 million accesses to our Internet applications.

Question: For example, how many taxpayers who were unable to get return preparation assistance at a walk-in site in 1996 would have had no alternative but to pay someone to prepare their return?

Answer: Each year we train over 80,000 volunteers in our VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) programs. In FY 1996, to date we have 7,127 VITA sites, and 10,413 TCE sites offering assistance to taxpayers in preparing their returns at no cost to the taxpayer, with an added emphasis on sites offering free electronic filing.

Question: Also, IRS points to its world wide web site on the Internet as an example of the kind of assistance that is available to taxpayers in lieu of walk-in sites. While the development of that site is commendable, is it reasonable to expect that the typical user of a walk-in site would have access to Internet?

Answer: More and more people have access to Internet, both at home and at work. Information at public libraries and VITA/TCE sites is demographically located in communities where potential customers reside for their convenience. In addition to Internet, our volunteer locations and current walk-in sites, taxpayers can conveniently reach us by telephone for automated and personal assistance.

Question: How was the determination to close offices made?

Answer: IRS local offices were given the discretion to allocate the reduced resources to best serve local taxpayers' needs.

Question: How many offices are we talking about?

Answer: We ended last filing season with 535 offices, and as of 3/8/96 there were 442 offices providing walk-in taxpayer service. This number declined to 418 offices as of 5/3/96, reflecting the closure of walk-in assistance offices that are only open during the filing season. During next filing season, there will again be a reopening of filing season only walk-in offices, consistent with FY 1997 resources.

Question: IRS' budget request for fiscal year 1997 includes about $64.2 million that is identified as being for the Integrated Case Processing (ICP) project is to help IRS' customer service representatives work through taxpayer cases more efficiently by presenting all relevant information on one computer screen. What is the status of IRS' efforts to develop, test, and install ICP, as well as train representatives in its use?

Answer: The Integrated Case Processing (ICP) system supports IRS' Business Vision goal of resolving taxpayer issues during a single contact. ICP provides the modern tools and access to information that Customer Service Representatives (CSRs) need to handle taxpayer cases more efficiently.

ICP is being phased in at our Customer Service Centers. The initial ICP versions 1.0 and/or 1.5 have been implemented at 12 Customer Service Centers to provide CSRs with access to several existing data bases including the Integrated Data Retrieval System, Automated Collection System and Automated Underreporter. Version 2.0, which will provide CSRs with new tools to resolve individual taxpayer account issues and a more user friendly access to information, is nearing the end of the development and integration phase. Quality Systems Testing for version 2.0 began this May at the IRS' Integration, Test and Control Center in Poplar Run, Virginia, and will continue through the end of September 1996.

ICP version 2.5 will include tools for business account resolution, as well as provide for greater

integration with other ongoing Tax Systems Modernization (TSM) efforts. These include the Corporate Accounts Processing System (CAPS), which will be TSM's central tax account data base, and the Workload Management System (WMS), which will aggregate tax information from various data bases.

In addition, the following training activities have been undertaken:

ICP 1.5: During the summer and fall of 1995, an ICP 1.5 classroom, hands-on training program for CSRs was designed, developed and implemented. Thus far, 33 instructors and over 1,800 CSRs have been trained. An additional 700 CSRs will receive training during July, August and September 1996.

ICP 2.0: We are currently analyzing training requirements for ICP 2.0 in preparation for designing the training program, which will be completed this July and piloted in September 1996. The training program will be a combination of hands-on, instructor-led classroom training and coach-assisted, self-instruction over a five day period.

Question: How are you assessing the effectiveness of ICP, and what quantitative data do you have to make that assessment?

Answer: Part of the certification plan being developed for ICP 2.0 includes an evaluation plan with specific metrics to determine if ICP is producing the projected benefits. The evaluation plan will be completed by July 1, 1996, and will utilize both historical baselines and current baselines from non-ICP control groups. Data from existing reports, ICP Management Information System reports and some manual data gathering techniques will be used in assessing the effectiveness of ICP.

Reorganization/Consolidation

Question: The Service has undertaken a large reorganization effort which is changing the face of the organization. Could you outline for the record what steps you have taken in the reorganization, and how it will help in IRS' day to day operation?

Answer: The IRS is realigning its organizational structure to make it more efficient, effective and flexible. We are concentrating on the work currently performed by Service Centers, Computing Centers, Automated Collection and Taxpayer Service telephone sites and District Offices. During FY 1994 and 1995, we consolidated our 70 phone and correspondence operations into 34 and will consolidate ultimately in 23 Customer Service Centers. We will soon be operating with three Computing Centers responsible for centralized mainframe computing instead of the 12 operating today.

On October 1, 1995, the number of regions was reduced from seven to four, the staff remaining in the four regions was reduced, and we began to consolidate from 63 district headquarters to 33 offices. The district consolidations are ahead of schedule and will be completed by October 1, 1996.

In the summer of 1993, we decreased the number of locations providing administrative support services from more than 80 to 24; three more will be eliminated this year. This reengineering of the ways we deliver support to IRS employees has allowed us to save over $61 million in salaries (more than 800 FTEs) since 1993. Despite this decrease in support services resources, the job is getting done, but not without some innovations. To compensate for staffing decreases, we have reengineered many of our administrative processes to be less labor intensive and to take advantage of available technology. Through an innovation called the "Employee Express," employees can now manage their own employment accounts, directly changing their tax withholding, savings bond allotments, Thrift Savings Plan contributions and other personnel actions through the use of a touch tone telephone or centrally located kiosks. In the past, these employees filled out forms and sent them to their personnel offices where other employees made the changes to the payroll system.

Question: IRS has included a number of consolidation efforts. One of these proposes to

consolidate 10 service centers into 3 computing centers. What is the status of this consolidation? What is the projected cost savings?

Answer: The IRS is currently planning to consolidate the processing done on the Service Center Replacement System (SCRS) mainframes at its ten Service Centers to the new Service Center Support System (SCSS) mainframes located at three Computing Centers by the end of 1998. An Information Systems SCRS Consolidation
project office is currently developing a detailed consolidation implementation and transition plan, schedule, and a SCRS Consolidation Business Case. The SCRS Consolidation Business Case will provide projected benefits and savings to be derived from the consolidation. The cost savings will come from several areas.

The Corporate Accounts Processing System (CAPS) and the Workload Management System (WMS) projects are planning to build and maintain the new corporate taxpayer account and case data bases on the SCSS platforms. Because of this, the IRS has already planned to procure one SCSS production platform for each of the three Computing Centers over the next three years. Consolidating SCRS processing to the new SCSS platforms will produce two immediate results. One, it will facilitate the creation of a unified taxpayer data base, which the CAPS and WMS projects will use to accelerate the development of their TSM products. This will allow the IRS to provide taxpayers with improved customer service by providing its employees with access to greater amounts of on-line taxpayer data in shorter time frames. Second, the IRS will get a greater return on its ADP hardware and software investment in a shorter time frame by using the SCSS platforms for current "legacy" computing operations, in addition to the already planned use of the SCSS platforms for TSM computing operations.

In addition, by consolidating the SCRS processing to the three Computing Centers:

- Portions of the computing operations floor space could be freed up for use by other Service Center operations that need additional space.

- The IRS will be able to reduce its current Information Systems staffing levels at the Service Centers.

- The IRS will be able to eliminate all current SCRS maintenance and ADP services contracts.

- The IRS can eliminate the purchase of additional SCRS processing capacity at the Fresno and Ogden Service Centers, as well as eliminate the need to replace much of the SCRS peripheral equipment at all ten Service Centers.

The Office of Management and Budget (OMB) has directed federal agencies to consolidate their data centers where possible. By consolidating SCRS processing from ten service centers to three Computing Centers, the IRS will have complied with the OMB directive in a *substantial* manner.

Base Funding

Question: There is funding outlined in the budget request which indicates that the base is fully funded. Is the base fully funded?

Answer: Assuming that the request for resources necessary to maintain current operations is approved, the base is fully funded. Additionally, if the requested increase
for the Revenue Protection Initiative is not approved, then the program reduction of $67.5 million and 1,341 FTE needs to be restored to keep the base fully funded.

Question: How many positions (FTE) are unfilled? What would take to fill those positions?

Anwer: We do not consider any positions to be unfilled in FY 1996. The FY 1996 authorized level is 106,351 FTE, and we expect to fully realize those FTE.

Question: Is the amount requested to maintain current levels accurate? What will this funding be applied to?

Anwer: Yes. These resources will be used to pay for staffing related expenses, such as pay increases, and non-labor increases for expenses externally set by GSA and others, such as postage, printing, and essential contracts, such as those for National Archives and Records Administration and the Financial Management Service. They represent bills we do not control and must pay. Without these resources, the Service would be forced to reduce programs, or to shortchange funds intended for training, supplies, enforcement travel and essential enforcement expenses.

Question: When President Clinton took office he issued Executive Order 12837 that reduced administrative costs, as well as, personnel over a four year period. Fiscal year 1997 is the fourth year. For the record could you provide the Committee with a breakout of the following: The amount of savings by year, and where the reductions were applied.

Anwer: We reduced our costs by three percent in FY 1994, FY 1995 and FY 1996 and by five percent in FY 1997. We took these reductions in non-labor support categories as follows:

Category	FY 1994	FY 1995	FY 1996	FY 1997
ADP Equipment & Telecomm	$8,913	$6,574	$9,746	$18,145
Enforcement Expenses	894	1,134	2,891	5,772
Non ADP Equip./Moving Exp./Training	875	1,477	4,406	3,912
Postage & Printing	4,758	4,601	6,466	11,998
Space & Housing	9,828	10,722	1,940	2,874
Supplies & Services	3,477	4,028	6,033	10,937
Operating Travel	2,296	2,505	2,733	4,562
Total	$31,041	$31,041	$34,215	$58,200

Question: Could you provide the Committee with a breakout of the number of FTE saved as a result of the order, and where these reductions are applied.

Anwer: Executive Order No. 12837 was aimed at reducing non-labor categories. Therefore, this Order did not have an impact on FTE.

Fraud

Question: In recent years the IRS has taken steps to reduce fraud. I would like to review some of the issues that have arisen with regard to those efforts. In 1995 IRS took several steps to identify questionable returns, but encountered several problems in implementation. A large part of the effort utilized scrutinization of Social Security numbers. I believe you found that many of the cases selected for review involving missing or invalid Social Security numbers were unproductive and resulted in inefficient uses of resources?

Question: Is that a correct representation?

Answer: This statement is true for invalid SSNs only. Cases with invalid SSNs were unproductive because they were found to result mostly from inadvertent errors in return preparation (e.g., transposition of digits in a dependent's SSN). Our results show that returns with missing SSNs are productive, resulting in the identification and disallowance of improperly claimed credits and exemptions.

Question: If it is what have you been doing to remedy the situation and better utilize resources?

Answer: After evaluating last year's operational results, we modified both our programming and selection criteria so that we could use our resources to focus on more productive cases.

IRS stressed Social Security validation early in this tax season. It is my understanding that several million problems were identified, thus delaying refunds to taxpayers.

Question: In an effort to improve controls, I believe IRS took several steps to expand control of electronic filing and the processes used to identify individual taxpayers who are eligible to participate in electronic filing. Could you identify what you have done?

Answer: Up-front social security number (SSN) validation improved our ability to detect invalid and duplicate use of SSNs. Refund delays allowed additional time to detect fraudulent returns (i.e., Invalid SSNs and high risk earned income tax credit claims) prior to issuance of refunds. For the returns filed in calendar year 1995, enhanced Electronic Return Originator monitoring was instituted. Each individual listed as a principal or responsible official of an electronic return originator firm, organization or business must be a United States citizen, must have attained age 21 years of age, may have been required to submit to fingerprint checks, must submit to a credit check, and meet state and local licensing and/or bonding requirements. In addition, Branch offices must reapply for acceptance into the electronic filing program. For returns filed in 1996 further changes included allowing an exemption from fingerprint checks for officers of publicly held corporations and for bank officials, requiring electronic return originators to notify the Service when they have stopped filing returns, and if a principal or responsible official was suspended from the program all "associated offices" were suspended. Increased monitoring visits of electronic return originators (6,601 in 1996 up from 5879 in 1995) to EROs resulted in 705 warnings and 287 suspensions.

Question: How many people filed electronically in 1995 and this year?

Answer: In 1995, 11.9 million people filed electronically. As of May 17, 1996, 14.9 million people filed electronically in 1996.

Question: I understand that in 1995 the "electronic filters" used by the IRS to identify possible problems with Social Security numbers totaled approximately 4.1 million. Is that figure correct?

Answer: In FY 1995, 4.3 million missing, invalid, or duplicate uses of social security numbers (SSNs) caused electronically filed returns to not be accepted into IRS' system and to be rejected back to the electronic transmitter. Similar validations on paper filed returns identified 6.4 million missing, invalid, or duplicate uses of SSNs.

Question: Were these all fraudulent, or just, mistakes?

Answer: We do not know if they were all fraudulent, just mistakes or a combination of fraudulent and mistakes. We know that they did not match the information on IRS files or that the same SSN was used for dependent and/or qualifying child for EITC purposes on more than 1 tax return.

Question: Would filing by paper have had any impact on these numbers?

Answer: No. As stated in the previous response, there were 10.7 million instances on both electronically and paper filed returns of missing, invalid, or duplicate uses of SSNs.

Question: What can be done to reduce these discrepancies?

Answer: Taxpayers need to ensure that they list all social security numbers for dependents and qualifying children being claimed on the return; ensure that if a name or other change was registered with Social Security Administration that the return is update; and if there was a

problem last filing season, find out if the problem was caused by an error in recording the SSN onto the return. If the SSN was recorded correctly, then Social Security's records may not have recorded name or other changes; thus, the taxpayer should contact Social Security to correct this problem before filing the subsequent year's return.

Question: IRS stressed Social Security validation early in this tax season. It is my understanding that several million problems were identified, thus delaying refunds to taxpayers. How many problems were identified in this effort?

Answer: For this filing season, through May 10, 1996, 555,521 questionable returns were identified with 912,663 unallowable items involving missing/invalid SSNs for dependent or EITC qualifying children. This equates to an average occurrence of 1.64 unallowable items per questionable return. In addition, we are reviewing 16,884 questionable returns identified manually after refund issuance through that same date.

Question: How many tax returns were delayed?

Answer: We delayed approximately 440,000 refunds.

Question: What was the average time of the delay?

Answer: As of April 26, 1996, we had completed the examination of 30,535 questionable refund and non-refund returns filed during this filing season. The average time to complete the examination for those cases has been 23.5 days. Generally, the first cases closed result in no change to the tax liability reported by the taxpayer. The taxpayer provides the required substantiation immediately upon receiving the 30-day letter. Since 90.17% of the 30,535 cases closed through April 26, 1996 were closed "no change," the average time of delay is not representative of all cases that we will close this year.

Question: How many of these problems were fraudulent?

Answer: Returns with indications of potential fraud are referred directly to Criminal Investigation. None of the 555,521 questionable returns identified for examination were identified as potentially fraudulent.

Question: How many of these returns were referred to the examination unit?

Answer: As stated in response to the above question, all 555,521 questionable returns were identified for examination. Thus, all were referred to the examination unit. None of these were identified as potentially fraudulent.

Question: Could you give an example of what action is taken by the examination unit?

Answer: A letter is sent to the taxpayer proposing a change to the tax return. The taxpayer is told what items are questionable, what substantiation must be submitted and is given a "before and after" tax computation. The letter also includes a consent that the taxpayer can sign agreeing to waive the right to a notice of deficiency which allows the IRS to assess the tax. The taxpayer has 30 days to respond.

If acceptable substantiation is submitted, the case is closed and any refund due is released. If the taxpayer signs the consent, the tax is assessed. If the taxpayer fails to respond within 30 days, a Notice of Deficiency (90-day letter) and a report is issued. If the taxpayer responds to the notice of deficiency with acceptable substantiation, the case is closed and any refund due is released. If the taxpayer does not respond with adequate substantiation, does not request a conference with Appeals; and does not petition the Tax Court, the tax is assessed. If the taxpayer requests a conference with Appeals and/or petitions the Tax Court, the case is not closed until it is resolved through the administrative appeals and/or litigation processes.

Question: Were these cases productive, or an undue burden on taxpayers?

Answer: Since many cases identified for examination during this filing season are not closed, it is premature to assess the productivity of these cases. Due to enhancements made to our selection criteria and filters, fewer questionable returns were identified for examination this filing season; thus, taxpayer burden was significantly less than last filing season.

Question: Are taxpayers advised that there are problems which have been identified, so that they can correct them and not face the same problem next year?

Answer: They are advised how to both correct their problems (the initial audit contact letter) and how to avoid them (return instructions, IRS publications, return preparer Q & A packages, public meetings, etc.).

Question: Has this been a successful exercise, or is it too early to tell?

Answer: At this time, it is too early to assess the impact of this filing season's efforts. However, our efforts during the 1995 filing season were successful. One and a half million fewer dependents were claimed and there were approximately 100,000 fewer Earned Income Tax Credit (EITC) claims than in the previous year. Criminal Investigation identified more than 4,100 refund schemes involving almost 60,000 returns and prevented the issuance of $78 million in refunds. Through pre-refund examinations, we prevented the issuance of an additional $425 million in refunds. In its August, 1995 Economic and Budget Outlook update, the Congressional Budget Office decreased anticipated EITC outlays by $2-$3 billion a year over seven years, stating, "EITC spending has been lower than expected this year, possibly as a result of a recent crackdown by the IRS ...."

Question: Will it or a successor program be used in the future?

Answer: Our efforts to address improper and fraudulent claims for refund will continue in the future.

Question: The IRS established the questionable refund program in the 1970s as your primary effort to identify returns involving fraudulent refund claims. This program appears to be personnel intensive dealing with massive amounts of paper. Is this program still the major effort to identify fraudulent returns?

Answer: Yes

Question: How has it changed over the years?

Answer: Yes. During the 1994 filing season, the IRS performed a small study of electronically filed returns claiming the Earned Income Tax Credit (EITC) filed over a two week period. Information from this 1994 filing season study was used to develop additional controls to stop EITC noncompliance, including fraud, during the 1995 filing season.

To expand our understanding of EITC noncompliance, we conducted another study during the 1995 filing season. This study involved refund returns filed electronically and on paper throughout the 1995 filing season claiming the EITC. We are analyzing the results from this study and they will be used to improve our controls and prevention mechanisms for the 1997 filing season.

Technology was used to change the way the questionable refund programs works. The Electronic Fraud Detection System (EFDS), an automated fraud detection system, provides on-line research capabilities which are used by employees in the questionable refund program to validate claims and identify multi-return schemes – reducing the paper intensiveness of this program. EFDS was in use for the 1995 and 1996 filing seasons.

To identify more sophisticated fraud schemes, we are working with the Los Alamos National Laboratory to design software which detects anomalies and matches patterns in large data sets. Five new anomaly detection/pattern recognition tools were tested at the Cincinnati Service Center during the 1995 filing season.

Question: Will it evolve further?

Answer: Yes. To address noncompliance with refund returns, including fraud, the IRS must continually assess emerging trends and constantly revise prevention mechanisms. Strategies, which are perfectly satisfactory today, may be useless tomorrow. Also, valuable information gathered during one filing season will be used to better hone our strategy for the next filing season and beyond.

QUESTIONS SUBMITTED BY SENATOR KERREY

1996 Filing Season

- According to GAO, tax assistance calls to IRS this filing season resulted in an accessibility rate of 20 percent or about 9% above last year. A significant factor in this increase is a sharp decline in the number of calls to the telephone assistors--63.3 million calls this year between January 1 and March 9 vs. 107 million for the same period last year.

- GAO attributes the fewer calls to IRS'; use of the INTERNET; fewer refund delay notices, and a decline in the number of returns filed.

- Even with the decline in calls, IRS is still only able to answer about 49 percent of the calls made to its lines.

Question: Why is it that IRS is only able to answer slightly less than one-half of the calls that come into its toll-free lines?

Answer: IRS answers as many calls as possible with the resources available. We have increased the number of telephone calls we handle due to improvements in equipment, employee productivity, and management. The Customer Service component of our technological advances has been delivering capabilities that have some of the most direct impact on taxpayers. Technological advances in equipment allow us to provide our customers with an automated self-directed phone system. This increases our response rate. Nearly two-thirds of all customer calls are serviced through these automated systems. In FY 1995, a total of 110 million calls were answered through our telephone network. Of that amount, 39 million calls (35%) were handled by telephone assistors. The remaining balance of 71 million calls were handled through our toll-free TeleTax system and "after hours" automated service. Through more efficient geographic and subject matter directing of calls to available assistors in a given region, we have increased our productivity. For example, in fiscal year (FY) 1992, the IRS answered 35 million calls utilizing 5,700 full time equivalents (FTEs). In FY 1995, the IRS answered 39 million calls utilizing 5,500 FTEs (a reduction of 200 FTEs from 1992).

Question: Is it a capacity problem with the design of the system or is it a staffing problem?

Answer: The sizing of our system, in a given year, is based on the projected number of calls yet limited by what our projected resources, staffing and equipment can accommodate. Customer demand has grown at a faster pace than our current resources, staffing, or equipment capacity can handle. For example, demand has increased from 50 million in 1992 to 101 million in 1995 on that portion of the network that is staffed by assistors.

We are always striving to increase our capacity within current resources and to serve more customers. Access has increased through technological advances that allow customers to avail themselves of our automated services. We are continuing to develop additional automated self-help systems. We have also purchased additional automated call distributer equipment and expanded/enhanced TeleTax equipment.

Questions: Do you have any plans to increase that percentage over 50% or above? Why or why not, and what would this cost? What is the optimum level for the telephone assistors, in your view?

Answer: IRS believes the level of access will increase due to a number of initiatives. Alternative sources of receiving tax law information, forms and publications are now available for many taxpayers and practitioners via Internet. Actions are underway to clarify notice language and reduce the number of notices that are issued which should reduce the need for taxpayers to call the IRS about the notice. Nationwide access to IRS' computer system enables assistors to resolve more account issues on the initial contact and reduce repeat calls. This will be further enhanced with the upcoming introduction of Integrated Case Processing (ICP) technology. The initiative to provide a new toll-free number on notices will enable IRS to direct more resources to account calls and particularly improve access to taxpayers with those issues. All these actions are intended to narrow the gap between how many taxpayers call and how many IRS answers. IRS's longer term goal is to achieve an 85 percent level of access.

Interactive Telephone System

- As part of its consolidation efforts, IRS has closed some walk-in offices around the country and is relying instead on toll-free telephone assistance for taxpayers.
- In order for the telephone interactive systems to work, however, IRS must develop a system that is user-friendly.
- We are told that current IRS telephone routing systems contain too many options to obtain the information a taxpayer needs and provide no way for taxpayers to correct menu selection mistakes or resolve more than one issue.

Question: Commissioner, an interactive telephone system to respond to taxpayer inquiries is only as good as its design for a specific user. If you have a system which does not recognize that taxpayers can make mistakes and want to return to the main menu but can't or one that includes too many options that it is confusing, the system
can't function as an effective service tool. Given the criticisms of the interactive systems were designed in a fashion that truly is not user-friendly, what steps is the Service taking to rectify these systems?

Answer: The IRS tested its automated call routing application at the Cleveland, Ohio, Taxpayer Service site during the 1994 filing season. As part of an evaluation of the application, the IRS conducted a customer satisfaction survey of taxpayers who completed the automated routing system. A satisfaction rate of approximately 86 percent was achieved. The survey results do not include taxpayers who hung up while working through the system or taxpayers who refused to participate in the survey. We continue to improve our systems and survey our customers.

The IRS tested three interactive telephone applications at the Nashville, Tennessee, Customer Service site during the 1995 filing season. Customer surveys were conducted for two of these applications – Voice Balance Due (automated installment agreements) and Location (mailing address of closest IRS office for taxpayers to file or send in payments). Results are as follows:

(1) Voice Balance Due: Approximately 97 percent of those surveyed found the system very easy or somewhat easy to use. Approximately 94 percent were very satisfied or somewhat satisfied with the automated service.

(2) Location: Approximately 87 percent of those surveyed found the system very easy or somewhat easy to use. Approximately 73 percent were very satisfied or somewhat satisfied with the automated service.

Even though our testing indicates satisfaction with the telephone system, we continue to evaluate the menu options. Additionally, to assist taxpayers in navigating through the telephone

system, a menu explanation was included in the 1995 1040 Forms and Instructions Booklet, page 38.

Question: Why were they designed in the first place without the input of the program business-line owners?

Answer: The Taxpayer Services organization, designated business-line owner, worked with the Information Systems operation to develop requirements for the new Telephone Routing Interactive System (TRIS). As previously stated, customer satisfaction surveys were conducted prior to roll out of any TRIS applications. Taxpayer Services and Information Systems continue to work together to improve existing applications and design new ones.

Question: How do you test these systems before you make a formal decision to introduce them to the public?

Answer: A Systems Acceptability Test is conducted for each telephone routing project or application. The Information Systems and Taxpayer Services organizations conduct a pilot test to determine if the functionality is acceptable and meets quality measures contained in the certified evaluation plan. Each evaluation plan includes customer satisfaction measurements. To ensure acceptability, taxpayers involved in the pilot test are surveyed to determine customer satisfaction prior to nationwide implementation. Survey results are included in our above response to your question concerning what steps the Service is taking to improve interactive telephone systems.

Funding for Taxpayer Service

- The amount of funds requested for taxpayer services in FY 97 is declining by $8.4 million and 496 FTEs.

- Performance measurements, however, are expected to stay at the '96 level, which is about a 41.4% level of access service wide. But, taxpayer contacts are expected to decline in FY 96 and 97 by about 216 per FTE.

Question: Despite the use of the Internet, which I compliment you on, clearly you are continuing to have problems with taxpayers getting their questions answered. Why, then, would you propose to reduce funding for Taxpayer services in FY97 by $8.4 million and 496 FTEs? What impact will this have on further eroding level of Service to taxpayers?

Answer: In the Service's FY 1996 Final Performance Plan, resources were allocated to the Taxpayer Service activity to perform work traditionally handled in the Submission Processing activity. This work transfer did not take place and therefore resources were realigned back to Submission Processing in FY1996. However, for budget purposes, this realignment was reflected in FY1997 giving the appearance of a reduction in resource levels for Taxpayer Services. This realignment will not effect the level of service provided to taxpayers.

Question: What level of priority does IRS assign to taxpayer service? How is this being met?

Answer: The IRS places the highest priority on taxpayer service. This is demonstrated by our increasing emphasis on making the process of filing taxes for individuals and families simpler and more user friendly. As indicated earlier, we are increasing our telephone level of access, and providing automated options when appropriate. We train over 80,000 volunteers to participate in programs such as Tax Counseling for the Elderly (TCE) program which offers assistance to seniors preparing their forms. We continue to emphasize education so that taxpayers have clear directives and the resources necessary to help them file. Our budgetary and staffing decisions reflect a clear emphasis on excellent and thorough taxpayer service.

Hiring Freeze

- Since last July, IRS has had a freeze on hiring. It took this action in light of anticipated funding reductions in '96.

- IRS' current FTE level is about 106,351, which is down about 6,000 FTEs since FY95.
- Despite the freeze, IRS still has about an $80 million shortfall to cover existing positions.
- In order to deal with the vacancies in some areas which are critical to operations, IRS may institute a directed reassignment of employees or a Reduction-In-Force.
- We are told the IRS plans to take this action regardless of what happens to your '97 budget.
- According to the IRS budget justification, the magnitude of the cut in '96 required deeper reductions in those programs staffed with temporary and/or seasonal employees. FTE reductions totaled 1,163 for collection.

Question: Commissioner, you have had to institute a hiring freeze in '96 to deal with budgetary reductions. I understand that a disproportionate part of the reduction was taken in the tax law enforcement account and that you had to forego temporary and seasonal positions. What impact has this reduction had on revenue collection?

Answer: We detailed 250 Collection Revenue Officers and 150 other Service Center employees to our Automated Collection System (ACS) sites in order to maintain sufficient coverage in this highly cost-effective stage in our collection process. Through May 1996, collection yield is $18.9 billion an increase of $3 billion (18.8%) over the comparable period in FY 95.

Question: I understand you may institute a Reduction-in-Force or force moves to better manage the staffing in certain program areas. Can you tell us when you will make a decision on this action and tell us where you intend to staff up?

Answer: As a result of our reorganizations and possible future budget cuts, the Service is currently establishing a RIF infrastructure. We are currently evaluating our staffing requirements; we are identifying our staffing shortages and excesses to better utilize staffing resources and to maximize program impact. The decision on whether or not a RIF will be necessary has not been made.

Question: What is the cost of the RIF?

Answer: An estimated average cost of $40,000 is associated with each RIFed employee. The costs are highly variable, depending on the grade, age, and years of service of the RIFed employee.

Question: If the increases requested for the new '97 compliance initiative are not provided, will this mean that you will have to further reduce enforcement staffing levels below those currently in effect?

Answer: Without the revenue protection initiative (RPI), enforcement staffing in all compliance programs would be reduced. Although RPI includes 3,820 FTEs for enhancing service center and call site collection programs, this increase is partially offset by a reduction of 1,341 FTEs in traditional, face-to-face district enforcement programs. This "re-mixing" of enforcement programs is consistent with the IRS' long-term vision that emphasizes high-yield, less intrusive compliance programs.

Question: How does the enforcement staffing level currently compare to that anticipated in the '96 budget request?

Answer: In the FY96 President's Budget request, we requested 71,871 FTEs in the Tax Law Enforcement (TLE) appropriation, including FTEs funded from the Crime Bill. We currently have 66,462 FTEs in the current financial plan for the TLE appropriation.

Question: What other actions did you take to meet the reduced budget shortfalls?

Answer: In the TLE appropriation, we implemented a hiring freeze, reduced overtime by 79 percent and restricted usage to case-related overtime only, and reduced cash awards by 19 percent. We reduced travel by 18 percent, and redirected an additional $4 million of travel from the National Office to the field. We reduced enforcement expenses by 15 percent; reduced services and supplies by 15 percent; reduced non-ADP equipment purchases by 66 percent; and prohibited a number of GSA catalogue items from being purchased. Training was reduced by 14 percent, and guidance issued on which specific courses were funded for FY96. In addition, we detailed 250 Collection Revenue Officers and 150 other Service Center employees to our Automated Collection System (ACS) sites in order to maintain sufficient coverage in this highly cost-effective operation.

Revenue Compliance Initiative

Question: Commissioner, last year this Subcommittee had no choice but to reduce your budget by the $405 million included in the second year of the 1995 Compliance Initiative. In FY 1997, you are now proposing a comparable initiative costing $359 million and 3,280 FTEs. As you know, this Subcommittee does not get scored any BA or outlay credit for the additional revenues expected to be generated from these initiatives. What is the IRS or the Treasury Department doing to work with the Budget Committee to see if this initiative can be included while holding the Appropriations Committee harmless from the discretionary spending caps?

Answer: Nothing that I am aware of, Mr. Chairman.

Question: Has the $1.57 billion expected to be generated from this initiative been included in the President's calculation of the deficit for FY 97?

Anwer: No, the $1.57 billion expected to be generated from the Revenue Compliance Initiative was not included in the President's calculation of the deficit for FY 1997.

Question: I am glad to see that as proposed this initiative plans to use the most cost effective and productive call collectors to make the initial contacts. However, the initiative still includes an increase for revenue officers which are more costly and take more time to actually realize revenue. Why are you proposing increasing the number of revenue agents?

Answer: The initiative proposes no increases for revenue agents or revenue officers. This initiative concentrates exclusively on contact via telephone or written correspondence (Automated Collection System, Correspondence Examination, Document Matching and Service Center Collection Branch).

Question: You are also proposing an increase of $40 million and 800 FTEs for document matching. Why was this particular initiative chosen?

Answer: Document matching is one of our least intrusive, most efficient programs, will collected yield-to-cost ratios of approximately 5 to 1.

Question: What specific additional benefits do you hope to gain through enhanced document matching activities?

Answer: If this initiative is fully funded in FY 97 through FY 02 (including a reapplication of resources towards Document Matching), we expect to collect an additional $1.5 billion over that 6-year period.

Question: Why can't this be done without a major infusion of FTEs?

Answer: The Document Matching activity is staffed by relatively low-graded employees located in our 10 service centers. Because the grade structure is lower than in other parts of Compliance, it is difficult to reassign higher graded workers into Document Matching.

Tax examiners must review the computer identified discrepancy prior to issuing a letter to the taxpayer to explain the discrepancy. Once a letter is issued, tax examiners are needed to review the taxpayer's response and decide the appropriate action to be taken.

Compliance Staffing Issues

- With the $405 million reduction for the compliance initiative in FY 96, IRS has reduced staff in collection areas that appeal to be more productive, i.e, the detection of unreported income and the automated collection systems.

- At the same time IRS is requesting an increase for compliance in FY 1997, it is proposing a $67.5 million and 1,341 FTE reduction in enforcement activities, the bulk of which is to be taken from examination activities ($41.2 million and 835 FTEs). The justification states that "because this reduction cannot be achieved through productivity savings at this time, the cut will have some impact on IRS' ability to collect taxes in FY 1997.

Question: Why did IRS reduce staffing activities in the detection of unreported income and automated collection in FY96?

Answer: Funding in the TLE appropriation for FY 96 was $284 million below the FY 95 appropriation (a 6.5 percent reduction), and $446 million below the FY 96 President's Budget request (which included two initiatives totaling $23.2 million). Thus, without the two initiatives, we were confronted with a budget deficit in the TLE appropriation of $423 million–a 9.3 percent reduction.

In the TLE appropriation, 83 percent of our resources are related to labor. Thus, any strategy to address a $423 million shortfall must include labor as part of that solution. The TLE strategy for addressing this shortfall was to capture savings from a service wide TLE hiring freeze, cut as deeply as possible in "discretionary" categories (see question and answer, above under Hiring Freeze, relating to actions taken to meet the reduced budget shortfalls), eliminate funding for the temporary limited appointment employees, and reduce the tour-of-duty of the seasonal employees. The last action disproportionately affected Document Matching and ACS, given the large number of seasonal employees these two functions traditionally employed. However, the impact to ACS was partially mitigated by a decision to detail to ACS 250 Collection Revenue Officers and 150 other Service Center employees.

Question: What impact will this have on revenue generation in '96 and '97?

Answer: We estimate that the impact of all cuts to IRS in FY 96 will translate to approximately a $1.4 billion loss in enforcement dollars collected. If the Revenue Protection Initiative is approved for FY 97, we estimate we will collect an additional $1.5 billion over FY 96 levels.

Question: Why are you proposing a $41.2 million and 835 FTE reduction in enforcement activities at the same time you are requesting increases in this same area? Doesn't this partially cancel out the benefits of the compliance initiative?

Answer: The cuts are from the Examination budget activity. Reductions are being taken in traditional, face-to-face program (revenue agents, tax auditors). The Examination portion of the Revenue Initiative is for tax examiners in the service centers involved in correspondence audits--a low cost, high yield program that is consistent with the IRS' efforts to emphasize up-front and early intervention. Rather than canceling out the benefits of the initiative, this approach emphasizes the high-yield, low cost parts of the Examination program.

Question: What will be the impact of this reduction if the increase of $359 million for the compliance initiative is not provided?

Answer: We estimate that the Revenue Protection Initiative will bring in $1.5 billion in FY97, and $15.8 billion between FY 97 -02, if an additional $405 million were provided in each of the out-years.

Question: What will be the impact of this reduction if the increase of $359 million for the compliance initiative is not provided?

Answer: If the Revenue Protection Initiative (RPI) is not provided, the FY 1997 program reduction to traditional "back-end" enforcement functions performed by Revenue Agents and Revenue Officers is not offset with increases to new "front-end" enforcement functions. These reductions will result in a reduction in base revenue collection. If RPI is not approved, then the proposed base reduction of $67.5 million and 1,341 FTE should be restored.

Question: What is the explanation for this reduction, was it mandated by OMB?

Answer: This reduction represents the Service's portion of a base program cut mandated by OMB and applied to Departmental bureaus to help balance the Federal budget.

Question: What is the explanation for this reduction, was it mandated by OMB?

Answer: The $67.5 million (1,341 FTE) reduction in TLE was part of the $125.7 million reduction related to Executive Order #12837 (Administrative Cost Reduction).

Private Collection Initiative

- The Congress earmarked $13 million of the tax law enforcement activities for a private tax collection initiative.

Question: What is the status of the private tax collection initiative?

Answer: We awarded five contracts on June 17, 1996. Contractors will begin their activities within 45 days of the contract award date.

Question: Can you briefly describe how this initiative will work, how many and what types of personnel will undertake collection work, and how much money do you estimate will be collected?

Answer: The 5 contracts were for assistance with collection related activities. All cases involve taxpayers whose current or last known address is within the following states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming. The cases will include both individual income and business taxpayer cases, with taxes owed for one or more years or quarters. Cases selected for the contractors will not be restricted to any set dollar amount or range. In general, the IRS will have expended effort to collect the amounts owed on these cases. IRS' efforts on these cases would have included several written notices, and often, attempted telephone and/or field contacts, and the issuance of Notices of Levy and/or Lien.

The statement of work requires that through the use of correspondence, locator and telephone techniques, the contractor will, if possible, contact the taxpayer with the following objectives: remind the taxpayer of the amount owed, inform the taxpayer of the IRS options for resolving the case and for ensuring future compliance, explain payment options which the IRS will allow for the resolution of the delinquency, and receive and forward taxpayer commitments to the IRS. Disagreements or challenges by the taxpayer regarding the validity of the balance due will be referred to IRS personnel for resolution. All taxpayer payments occurring as a result of a contractor's effort will be mailed by the taxpayer directly to the IRS. The contract payment structure is fixed fee, fixed quantity, with a performance plan incentive.

Each contractor has proposed a project manager, a collection site supervisor and a variable number of telephone collectors and direct managers depending on the volume of cases that will be worked by them. Most offerors were in the same range of collectors and direct managers for the different quantities proposed.

We have no sound basis for estimating in advance of the test what the benefits will be.

Question: Can you compare the costs for the private sector initiative to comparable activities by the IRS?

Answer: No. However, we do know that the $13 million spent internally could have funded approximately 300 FTEs within our Automated Collection System (ACS). Each one of those FTE could have collected approximately $1.1 million dollars for the IRS. This equates to a total revenue return in excess of $330 million.

Question: What controls has IRS placed on the initiative to ensure protection of taxpayer rights and to ensure that the same requirements applying to IRS collection employees to guard against harassment and discrimination apply?

Answer: All contractor employees assigned to this contract or with access to IRS cases will be required to undergo personnel security investigations in accordance with Executive Order 10450, Treasury and IRS requirements.

In addition, the civil and criminal penalties that apply to IRS employees for unauthorized disclosure and privacy act violations are applicable to contractor employees performing for the IRS under this contract. The IRS also has severe penalties built into the performance plan for any verified taxpayer complaints alleging harassment, intimidation, or heavy-handed behavior. More severe reductions will be taken when the verified complaint appears to be a violation of the Fair Debt Collection Practices Act (FDCPA), Taxpayer Bill of Rights (TBOR), Privacy Act, Disclosure statutes, etc.

Question: How much has been collected to date from this initiative?

Answer: Nothing. The contracts were just awarded on June 17, 1996 and the IRS has 30 days to deliver cases to the contractors.

Question: Does IRS plan to continue this program in FY '97? If so, has $13 million been included in the FY '97 budget for this initiative?

Answer: Most of the work from the 5 contracts will be performed during FY 97. The obligation of the $13 million to the contracts will allow us to expend FY 96 dollars until June 17, 1997. We did not request any funding in the FY 97 budget as we do not have results from this initiative.

Question: Should this initiative be expanded in any way? If so, how?

Answer: The IRS believes it has planned for a very comprehensive, balanced and fair test of the concept. IRS expects to gain valuable information regarding private sector ability to assist the IRS in our collection related activities, and how to best address our concern for protecting taxpayer rights. Until the IRS has the opportunity to analyze the results of the test expanding the initiative would not be appropriate.

<u>Accounts Receivable/Tax Gap</u>

- The IRS inventory of tax debt at the close of FY 95 is an estimated $200 billion; for many reasons, IRS estimates that <u>valid accounts</u> receivables are <u>about $88.5 billion</u> but that <u>only $46 billion</u> of this amount is <u>collectible</u>.

- GAO has reviewed IRS estimates and for several years has been unable to verify their reliability.

- IRS is now estimating that by the year 2001 it may process 39 million.

Question: As I understand it, the total tax debt inventory is somewhere in the $200 million range but that IRS believes that only about $88.5 billion on the inventory really reflects accounts receivables. Of the $88.5 billion, I further understand that IRS believes that about $46.5 billion of this amount is actually collectible. Are these IRS figures?

Answer: At the end of FY 95, IRS gross accounts receivable inventory equaled $200 billion of which 28.5% or $56.9 billion reflected accrued interest and penalties. The gross accounts receivable inventory for compliance purposes can be divided into two major components: Currently Not Collectible (CNC) and Active Accounts Receivable.

- CNC are accounts that a collection employee has determined a taxpayer cannot currently pay. Accounts in this category are periodically monitored and if a taxpayer is able to pay within the statutory 10-year period, the account will be collected. Attached is a chart that divides CNC by the reason the account is not currently collectible.

- Active Accounts Receivable are accounts that are potentially collectible and that are pursued through activities ranging from notices and telephone contacts to installment agreement and offers-in-compromise and ultimately liens, levies and seizures. Attached is a chart that shows gross CNC plus divides the active accounts receivable into the various collection stages.

  For financial statement reporting purposes, the IRS does have to estimate the collectible portion of the active accounts receivable. At the end of FY 95, we estimated that $46.5 billion would not be collectible; leaving an estimated net realizable active accounts receivable of $42.3 billion.

Question: It is my understanding that you intend to collect about $24.9 billion in taxes due in FY '96. Is this accurate?

Answer: Yes, we projected that our collection yield for FY 96 would be $24.9 billion.

Question: Does that mean then that at the end of FY '96 your accounts receivable will decline to about $63.6 billion?

Answer: No. Like in private industry, the accounts receivable inventory is not stagnant. While the IRS will be collecting on accounts already in the accounts receivable inventory, new accounts will be entering the inventory as a result of taxpayers filing returns and not remitting the unpaid taxes and assessments of additional taxes from the closing of an audit.

Question: At what rate are accounts receivable increasing on an annual basis?

Answer: Following are the percentage increases in gross accounts receivable and active accounts receivable for FY 93, 94, and 95:

	FY 93	FY 94	FY 95
Gross Accounts Receivable	15%	14%	17%
Active Accounts Receivable	9%	7%	12%

Question: Does IRS have any idea of the characteristics of the outstanding receivables, in other words, are the bulk from businesses, self-employed individuals, understated income?

Answer: Yes. Almost one third of our accounts are due from businesses. Of those due from individuals, 15 percent are due from taxpayers showing self-employment income.

Question: How does IRS determine the priority to give to the accounts receivable in your inventory?

Answer: Each account receives a score predicting its probability of producing revenue. Scores are based on taxpayer and account characteristics and are then used to prioritize cases. This process will be refined with the advent of the Inventory Delivery System (discussed elsewhere), which will present cases which are "fit for use" by our collectors.

Question: It is my understanding that factors contributing to your inability to accurately determine accounts receivable are internal processes within IRS and the 10-year statute of limitations. Is this correct?

Answer: IRS is able to accurately determine accounts receivable for operational purposes. The GAO has raised concerns in their audits of our financial statements about the accuracy for financial reporting purposes. For example, if a taxpayer fails to respond to a request to substantiate items on the tax return, the Internal Revenue Code permits the IRS to disallow the items in question and assess additional taxes. The GAO has deemed these assessments as invalid since the taxpayer never responded to the request or the notice of deficiency. For financial statement reporting purposes, the GAO believes that these "invalid" accounts should not be reported in IRS' accounts receivable inventory. From a tax administration perspective, it would unfair to those taxpayers who file accurate returns or who respond to our requests to substantiate items on the return to not assess and collect additional taxes and in these situations.

Question: Why can't IRS resolve these problems to develop a more accurate Inventory so that you can expend your collection efforts on known tax debts where there is a reasonable certainty of collection?

Answer: Our inventory is accurate for operational and tax administration purposes. Furthermore, all the accounts in the inventory represent "known" tax debt. Efforts are underway to improve our ability to collect accounts receivable. We are developing an Accounts Receivable expert system. A prototype we will begin using this year will allow us to predict collectibility based on case characteristics. This system will complement the Inventory Delivery System (IDS) which will be tested this year. IDS ensures cases are routed to the most effective point in the collection processing stream. These systems prioritize work so it is assigned to the point of most likely resolution as early in the process as possible.

<u>Audit Coverage</u>

- The IRS budget justification states that audit coverage was 1.63% of all returns in FY 95; but that the percentage will decline to 1.54% in FY 96. Despite a new collection initiative proposed for '97; audit coverage is expected to further decline to 1.51%

- The budget justification states that this decline is due to an FTE reduction of 1,040 in FY 96 and a total examination staffing reduction of 523 FTEs in '97.

- The justification also states that the overall FTE reduction will result in reduced tax collections and penalties of $400 million.

- Audit coverage as currently defined by IRS includes correspondence contacts from service centers in addition to the traditional face-to-face audits.

- Traditional audits alone for FY 95 were .71%; FY 96, .63%, and projected for FY 97, .58%.

Question: Why is it that given the $359 million compliance initiative in your '97 budget that you expect overall audit coverage to decline from 1.54% (FY 96) to 1.51% in FY 97?

Answer: The $359 million compliance initiative Increases overall audit coverage by .08% in FY 1997. However, several factors reduced the FY 1997 base coverage before the compliance initiative was added.

In FY 1997, a base program reduction was mandated to help balance the Federal budget over the next seven years. As a result of this, revenue agent staffing was reduced by 462 FTE and tax auditor staffing reduced by 91 FTE from FY 1996. This reduction accounts for a decline of 54,095 coverage returns or approximately .05% coverage.

Another factor which affected coverage was the result of improvements in our Revenue Protection Strategy (RPS).The FY 1996 RPS return closure projection of 880,000, which was based on prior year experience, reflected the Service's commitment to prevent refund fraud. In FY 1995, Service Center Correspondence Examination worked a high number of very simple issue, low time per case, less productive RPS cases (many of which were no change cases resulting from incorrect dependents' social security numbers). These cases, which are reflected in our FY 1996 coverage projections, had to be undertaken until changes in our selection criteria could be implemented. Based on that experience, enhancements have been made eliminating many of the simple issue cases thereby reducing taxpayer burden. Part of this effort has been an emphasis on educating taxpayers to correctly enter social security numbers. These changes have also enabled the Service to identify and select the more complex RPS cases. Such cases, while more productive, require more time, thus absorbing more resources and producing fewer returns. This has resulted in a **decline** in excess of 55,000 less productive coverage returns or approximately **-.06%** coverage.
In summary, the FY 1997 Base had a coverage **reduction** of **-.11%** while the compliance initiative produces an **increase** of **.08%** coverage giving a **net decrease** of **-.03%**. The base overall FY 1997 coverage is 1.43% and with initiative the overall FY 1997 coverage is 1.51%.

Question: As I understand it, the traditional examination audits are actually only .63% this year and will further decline to .58% in FY 97. Is this correct? If so, how do you account for this reduction?

Answer: As can be seen by the chart below, revenue agent staffing has been reduced by 462 staff years and tax auditor staffing reduced by 91 staff years. This reduction accounts for a decline of 54,000 coverage returns or approximately .05% coverage.

Fiscal Year	Tax Agents	Auditors	Coverage
1996	15,361	2,694	.63%
1997	14,899	2,603	.58%

Question: This such a small percentage of returns that are actually audited, how can IRS assure that taxes owed are the taxes being paid?

Answer: Information reporting and matching of information documents is one tool IRS uses to ensure compliance with the tax law. More than 90% of all income reported by individuals and between 40% and 50% of the deductions they claim are covered by information returns (Forms W2 and 1099) reporting requirements. Between 35% and 45% of all individual income tax returns are based solely on data that is, or should be, reported on information documents provided to the taxpayer and filed with IRS by third party payers. If these taxpayers receive timely, accurate and usable information documents, 35% to 45% of individual taxpayers are in a position to fully comply with the law. To the extent they fail to comply, IRS can make appropriate adjustments in a cost effective and far less burdensome manner than a traditional audit.

Thus, revenue agent and tax auditor staffing is directed to those categories of taxpayers whose income and deductions are not subject to information reporting. Traditional audit coverage in these categories is higher than 1%.

Question: Why are traditional audits less than 1%?

Answer: The question defines traditional audits to be the number of revenue agent and tax auditor returns closed in a fiscal year divided by the returns filed in the previous calendar year. As evident in the following chart, traditional coverage since FY 1990 has been about .70% with slight anomalies in FY 1994 and FY 1995 due to the Nonfiler strategy. Traditional audit coverage is a impacted by the growth in tax return filings and changes in revenue agent and tax auditor staffing.

Year	Filings	Revenue Agents	Tax Auditors	Coverage
1990	118,440,000	15,526	3,003	0.70%
1991	121,141,000	15,738	2,842	0.66%
1992	122,746,000	15,943	2,704	0.70%
1993	123,882,000	15,525	2,552	0.70%
1994	122,963,000	15,107	2,451	0.74%
1995	124,173,000	15,878	2,745	0.71%
1996	126,367,000	15,361	2,694	0.63%
1997	128,531,000	14,899	2,603	0.58%

Returns Processing

- The '97 request for returns processing contains an increase of $57 million and 804 FTEs.

- The budget justification states that IRS expects to process an additional 2.9 million returns in '97 up to 199.5 million

- However, IRS has been estimating major increases in primary returns processing which have not materialized. IRS requests a workload increase every year to cover the estimated growth. IRS processing of primary returns, estimates vs. actuals:

	Estimate ($M)	Actual ($M)
FY 93	$200.0	$197.0
FY 94	$201.5	$193.0
FY 95	$206.1	$193.1
FY 96	$197.0	NA
FY 97	$199.5	NA

In fact, IRS' estimates have been way off every year and actually declined between 93 and 94 and was only up modestly in '95.

- Returns processing staffing

FY 93	FY 94	FY 95	FY 96	FY 97
25,585	20,828	21,307	19,858	20,662

- The budget includes an increase of 220 FTEs and $7.227 million for workload growth in IRS Service Centers, yet the increases have not materialized.

Question: Commissioner, every year IRS requests additional funding for increased workload. In FY 1997, you have requested an increase of $7.227 million and 220 FTEs associated with Service Center workload growth. But, your returns processing staff has declined since FY 1993 and every year that you project an increase of 2 or 7 million more primary returns being filed in reality, there either has been only a slight increase or a decline. Why does IRS have such difficulty projecting the number of primary returns to be filed?

Answer: It is important to note that the projections referred to are forecasts made more than two years in advance of the actual fiscal years in question. While we carefully monitor return filing trends, and regularly revise our return forecasts to respond to the latest filing experience, tax law changes and changes in economic outlook, there is an unavoidable "lag" in the revision process. A review of IRS's "two year ahead" projections for total primary returns prepared over

the past ten years reveals an average forecast error of 2.0 percent—which excludes instances of under projecting the total, as well as over projecting it.

Question: Isn't the workload increase request tied directly to the primary returns projection? If so, wouldn't you think that you could come up with a better model for projecting returns filings?

Answer: Our workload increase request is based on the projection for primary returns. This projection is the result of independent forecasts for some 30 unique return types covering individuals, businesses and employee plans. These forecasts are prepared by a professional staff who have formal training in statistical forecasting techniques, and who are independent of the returns processing function. This staff employs state of the art software involving econometrics modeling and other advanced time-series projection techniques. They regularly review the accuracy of their forecasts and revise their forecasting models in response to actual results, as well as, to changes in the economic outlook, tax law and administrative procedures.

Question: Based on previous history on this, why should the Subcommittee provide any new funding for workload increases?

Answer: The actual volume of primary returns filed in FY 1995 was 193.9 million returns, up from 193.1 million in FY 1994. Since FY 1976, the number of primary tax returns has increased every year except in FY 1994, when individual estimated tax payments recorded a unique decline and caused an atypical drop in the resulting primary returns total. The expected growth in IRS workload in FY 1997 is in keeping with the long term return filing trends. To the extent that resource requirements needed to address workload growth are not provided, other program and infrastructure resources must be diverted to meet these processing requirements. This practice, although necessary, is detrimental to the Service and cannot continue indefinitely.

Electronic filing

- The IRS goal of achieving 80 million returns filed electronically by the year 2001 will not be achieved, according to GAO because IRS does not have a business strategy to reach that goal. This goal is critical to IRS achieving a "paperless" process.

Question: Has IRS changed its goal of 80 million returns being filed electronically by the year 2001 to 39 million?

Answer: The IRS recently asked Mark Cox, Director of the Southwest District, to come to the National Office on detail for a number of months to draft an Electronic Commerce Strategic Business Plan. This will cover all aspects of electronic commerce including electronic filing. It would be premature at this time to speculate on whether the original projection of 80 million returns is still accurate. As soon as the Plan is finished, we will provide a copy to the Subcommittee.

Question: Your justification states that your FY 97 projections for electronic filing are 11%. How did you arrive at this figure and how do you intend to achieve this?

Answer: We arrived at the 11% increase projection by analyzing statistical and historical data as well as performing market surveys with external organizations. Starting with the year 1997, our projections were increased in increments of 10% per year through 2001. Electronic Filing has progressed impressively since 1986 when it received approximately 25,000 electronically filed returns. Most recently growth can be attributed to the expansion of available initiatives that make it more attractive to participate in and use the Electronic Filing System (EFS), (e.g., TeleFile and On-Line Filing). A major portion of this volume will be realized by following and executing an integrated, total organizational matrix and a five year strategic business plan. The purpose is to appeal to and/or significantly influence individual and business taxpayers to use electronic options for complying with their tax obligations.

Question: How can you expect to achieve your goal of 80 million returns filed electronically by 2001 if you are only at 10% in FY96 and expect to be at 11% in FY97.

Answer: Our projected percentages for increase, are based on the Business Master Plan, and are set at 11% per year beginning with 1997. Due to the re-scoping of the business vision and the drafting of the five year strategic business plan, which will create a more cogent description of our strategy, the goal without legislative initiatives, has been revised.

Question: Isn't this 80 million goal integral to implementation of the TSM concept to achieve paperless returns filing? If so, what changes are you anticipating in the TSM concept if this goal cannot be achieved?

Answer: IRS' current goal is integral to the implementation of TSM. There is a significant need to advance electronic commerce, internally and externally, enabling the IRS to maximize the use of its increasingly limited resources and leverage technology. The IRS expects to achieve its current goal based on the re-scoping of the business vision by development of a comprehensive five-year strategic business plan for all Electronic Filing initiatives, which balances volume and a revenue protection strategy. If expected volumes are not received, the IRS will choose from the alternatives available for processing greater numbers of paper returns.

<u>TeleFile/Internet</u>

- User rates of the TeleFile Program which permits certain taxpayers (1040EZ filers) to file their returns over the phone, grew in 1996, but according to GAO, more than 85% of the persons eligible to use TeleFile did not use it.

- The IRS is making use of the INTERNET to answer most asked questions and permit individuals to down-line (load) forms.

Question: Commissioner, you praise the success of the TeleFile program and the fact that you intended to expand its 1040A filers. I applaud this success but question whether or not the use of this program is reaching expectations since as I understand it, only 85% of the individuals eligible to file through this means actually are using the system? What is your ultimate goal for TeleFile and how do you plan to attain this goal?

Answer: TeleFile not only expands electronic filing by processing returns through the electronic filing system, but does so with a signature alternative that replaces traditional paper jurat. By the year 2000, TeleFile is expected to represent 28% of individual electronic filing. The goal will be attained via expansion from the simpler returns to include more complex returns, other returns types, as well as, launching a very aggressive marketing plan.

Question: Why aren't more people using this means to file the 1040EZ returns?

Answer: TeleFile was piloted in 1995 in 10 states. In 1996 the program was expanded to all states. We anticipate a high degree of increase in future years, because of public acceptance of the system due the high confidence level the taxpayers have in the system. There were 21,019,032 taxpayers who received the 1995 1040EZ and TeleFile package and did not file their 1995 tax return using TeleFile. A systematic sample of 1000 was selected from the universe of non-TeleFile users shortly after the filing season closed to determine how they filed their 1995 tax return. The results showed that 52.3 percent of the non-TeleFile users filed a paper Form 1040EZ; 7.6 percent filed a 1040EZ electronically other than by TeleFile; and 33.9 percent changed to a different Form type. The highest percentage of those who did not use TeleFile, didn't do so because they wanted to have a traditional hard copy of their return. The next most frequently cited reason was a dislike of automated systems.

<u>Costs to Cover Base</u>

- An increase of $61 million has been requested to fully cover the cost of IRS personnel salaries and benefits.

Question: Commissioner, your budget includes an increase of $61 million to fully fund your labor costs which have been under funded in previous years. I understand you formulated a

costing model which successfully demonstrated to OMB that previous allowances were not covering the costs of career ladder increases and within grade increases. If the funding is not provided, what impact will this have on IRS FTE levels?

Answer: This would leave us with approximately 1,200 unfunded FTE, since the career ladder and within grade increases are mandatory. This FTE shortfall would have to be addressed by reprogramming non-labor costs or by reducing FTE.

Question: Can you please provide a copy of the labor costing model for the record and a full explanation of the justification for this increase?

Answer: Copy included for the Record.

Question: Several years ago the Subcommittee fully funded IRS base costs so that IRS would not reprogram funds from compliance and other initiatives just to pay for mandatory costs. When did this shortfall in labor costing occur?

Answer: This shortfall began when attrition fell below ten percent in the late 1980s. When attrition was above ten percent, the "savings" generated by bringing on new employees at lower pay rates than the employees who had left, was sufficient to cover these mandatory costs. Later, for some years we were able to offset these mandatory costs by reprogramming support funds into labor costs. But support funding has been drastically reduced by a long series of administrative services cuts, and this was no longer possible. Beginning in FY 1994, OMB recognized career ladder increases and within grade increases as mandatory labor costs and partially funded the request. In the subsequent fiscal years, OMB either provided the necessary funding or reduced the number of budgeted FTE, so that the labor funding budgeted was sufficient for the FTE budgeted.

Question: If this funding is provided, will it fully cover the cost of your proposed on-board FTE levels in '97?

Answer: Yes, assuming that pay raises are also funded.

<u>Information Systems/Tax Systems Modernization</u>

- The '97 budget includes an increase of $160.5 million for information systems. Included in this amount is an increase of $155 million for tax systems modernization, bringing the TSM budget up to $850 million.

- A program reduction of $13 million has been applied to information systems activities.

- While the justification states that it intends to expend an additional $64.2 million on the Integrated Case Processing System; $38 million on contractor support, $36 million on the Integrated Input Processing System; and $11.8 million for toll-free circuitry; the Treasury Department's informal board reviewing TSM may change this mix and list of priorities.

- To date, $3.4 billion has been appropriated for TSM, the '97 request would increase this amount to about $4.1 billion, or about 60% of the total revised estimated cost of the program.

- The information systems account supports 8,529 FTEs; of this, 2166 are dedicated solely to TSM development and another 455 to those systems which are operational.

Question: I know that Treasury is still reviewing the priorities for TSM for FY 1997. Can you tell us when you can expect to have the results of that review and some idea of what you will need for 1997 and how you intend to spend those funds?

Answer: The Treasury Department has increased its oversight of IRS Tax Systems Modernization. All projects are undergoing a greater scrutiny as we incorporate rigor and

control into our funding of TSM. More detailed information will be provided to you in the near future when the investment priorities have been finalized.

In general, the TSM Program for FY 1997 will reflect two significant changes:

- IRS is taking a "sharp turn" from in-house system development to contractors that possess the requisite technical management capabilities to design, integrate and develop modern IRS systems.

- Funds will not be obligated to further develop or roll out any project unless it has a convincing business case and a satisfactory "readiness review" to ensure that planned efforts are consistent with the management and technical capacity of IRS and its contractors.

FY 1997 funding, which will reflect the appropriate mix of risks and benefits for each TSM project, will be allocated among the following major areas:

Operational. This portion funds essential investments required to sustain or improve the current level of performance in TSM systems already in production, such as TeleFile.

Engineering, Program Management and Infrastructure. This portion funds mission-critical investments in core management activities, such as program management, contractor support, and investments in the technical infrastructure.

Deployment. This portion funds investments required to continue the roll out of field-tested information systems such as the Integrated Collection System.

Development. This portion funds investments required to develop and implement new components of TSM which will integrate critical TSM initiatives.

<u>Obligation of TSM Funds</u>

- As of April 30, 1996, IRS has $36 million in unobligated balances from previous years for information systems.

- For FY 96, as of April 30, IRS has $771 million in unobligated balances in information systems.

Question: How much of the $777 million in unobligated FY 96 balances are for salaries and expenses vs development and equipment costs?

Answer: According to our records, our unobligated balance for the Information Systems appropriation as of April 30, 1996, was $792 million. Of that, $385 million was for salaries and expenses and $407 million was for development and equipment.

Question: If this program were to be temporarily halted, would this impact any existing contracts? If so, would there be any costs from liability?

Answer: There would probably be a significant impact on existing contracts, along with significant liability costs. There are 32 active TSM contracts. On some of these, zero liability could be expected; on others, high liability costs are conceivable. The IRS has obligated over $300 million for these contracts in FY 1996, and over $200 million has been spent so far. If the IRS ceases all activity on these contracts for the rest of the year, it is unlikely that very little of the obligated but unspent money would be recovered, since costs for contract terminations or stopping work would probably consume the unspent amount. The IRS would make every effort to mitigate liability on a contract-by-contract basis, but heavy costs should be anticipated.

Criminal Investigations Division

- The FY 97 budget includes an increase of $31.7 million and 202 FTEs for Tax Fraud and Financial Investigations.

- Of this amount, $20,8 million and 230 FTEs are requested as part of the revenue compliance initiative. None of the increases will be used to conduct illegal income violations, i.e., narcotics and money laundering investigations.

- According to the IRS budget justification, the number of narcotics investigations for fiscal year 1997 will decline to 900 from 921. The fiscal year 1996 level has already declined from the fiscal year 1995 level by 73. In addition, fraud convictions are expected to decline by 22.

- The '97 budget shows that Special Agents are expected to decline in FY 97 to 2900 despite an increase of 230 FTEs for Tax Fraud and Financial Investigations for the questionable refund detection teams.

- In FY 1994, the budget was $360,699,000 and 4,921 FTEs for the Tax Fraud and Financial Investigation budget activity. In FY 1995 it was $402,142,000 and 4,723; for FY 1996 the budget was $378,566,000 and 4,577 FTEs; and for FY 1997 the request is for $410,316,000 and 4,779 FTEs. This is a net decrease of 142 FTEs from FY 1994. The increase in FY 97 is solely related to the Compliance Initiative.

- The number of fraud convictions has declined from 1,954 in FY 1995 to 1,932 in FY 1997.

- The number of narcotics convictions has declined from 994 in FY 1995 to 900 in FY 1997.

Question: With all other federal law enforcement agencies showing an increase in the number of narcotics and money laundering cases being worked, why is the CI the only federal law enforcement agency to reflect a decrease in the number of FTEs toward this initiative since 1984?

Answer: There are many factors to consider in explaining the decrease in CI's number of narcotic and money laundering cases. In response to the ever-increasing tax gap, CI has made a conscious policy decision to increase our efforts in the investigation and prosecution of white collar and other fraud cases. This includes the investigation of fraud in emerging areas, such as health care fraud, bankruptcy fraud, excise tax and motor fuel tax fraud. The number of cases investigated in these emerging fraud areas has increased while the number of narcotic cases has decreased.

The federal effort on narcotic enforcement in the last few years has placed additional emphasis on violent crime offenders and gangs. This type of law enforcement effort, targeting "street level" criminals, is not the type of investigations that uses the financial investigative expertise of CI special agents. "Street level" criminals and violent crime criminals (drug users and dealers who are engaged in muggings, robbery, carjacking, etc.) do not lend themselves to sophisticated financial investigations to perpetrate their crimes. CI has a very limited role in these investigations.

In the last 5 years, CI has investigated more than 12, 000 money laundering and currency crimes cases. This is more than all the money laundering cases of all the other federal, state, and local law enforcement agencies combined. CI has dedicated more resources to money laundering law enforcement than any other law enforcement agency in the world. Since 1986, CI has assisted in the training of many other federal agencies in conducting money laundering investigations related to criminal statutes they enforce. It was expected, and only natural, that after this training they would be able to conduct money laundering investigations on their own.

In 1994, CI developed a "National Money Laundering Strategy" that directed that CI will "identify, investigate, and prosecute the most significant tax, currency, and money laundering offenders...Due to its limited resources and specialized expertise, CI will prioritize its efforts in currency reporting and money laundering enforcement to address those investigations whose size, scope, and complexity require the value added financial expertise of its special agents." CI is following its Money Laundering Strategy to investigate only the "most significant" money laundering cases and "Prioritize" its investigative efforts.

Question: Why has the number of fraud convictions declined for FY 95?

Answer: The decline in fraud convictions is proportional to the decline in fraud investigations or prosecution recommendations. There has not been a decrease in our conviction rate on fraud cases.

Question: Specifically, has the priority of CI changed from nonlegal income investigations to legal income type investigations?

Answer: CI has developed a Tax Gap Strategy to assist it in delivering a balanced tax enforcement program that includes legal and illegal income cases, as well as money laundering and currency reporting crime cases. The Tax Gap Strategy has necessitated that CI prioritize its application of resources to address various fraud issues, including new emerging fraud issues. CI has added emphasis to work tax fraud cases in legal industries and to address emerging fraud issues, such as health care fraud, bankruptcy fraud cases, excise tax, and motor fuel fraud.

Question: Why has the number of narcotics convictions declined from FY 95?

Answer: The decline in narcotic convictions is proportional to the decline in narcotic investigations or prosecution recommendations. There has not been a decrease in our conviction rate on narcotic cases or fraud cases.

Line Authority - Background

- The FY 1993 Treasury Conference Report included language directing the Department of the Treasury and the Internal Revenue Service to conduct a study and undertake a series of actions to improve the effectiveness of the IRS Criminal Investigation Division (CID). These actions were to address a number of issues, many dealing with the coordination of cases at the management level to facilitate its mission: criminal investigations.

- The effective tools for criminal investigation are the use of informants, surveillance, conducting search warrants, undercover work, the presentation of cases to the Office of the U.S. Attorney, and other tools.

- The Committee was particularly concerned about the organizational structure of IRS-CI in relation to other law enforcement agencies. When the Committee first undertook its review of CI in 1992, the criminal investigation agents of the IRS reported to district directors and regional commissioners who did not have any law enforcement experience.

- In most other law enforcement agencies such as the FBI, DEA, Bureau of Alcohol, Tobacco and Firearms (ATF), U.S. Customs Service, U.S. Secret Service, and others, the enforcement agents have direct line authority to an assistant director of the agency who is responsible for enforcement matters. This practice ensures that policy, investigations, resources, and other matters are handled by law enforcement experts.

- The Committee recommended that line authority be instituted at IRS-CI, not only because it is a proven formula used by all other well respected federal law enforcement agencies, but also because the IRS-CI deals with and interacts with these other agencies, and a like management structure would ensure proper coordination on

enforcement investigations, and ensure that the focus operationally is consistent with national policies and goals.

- In FY 93, the Committee also noted that there were documented cases where CI cases had been jeopardized because of the unwillingness of non-CI managers to let undercover investigations and grand jury cases move forward.

- In its report to the Secretary of the Treasury entitled: "IRS Criminal Investigation: Issues and Solutions", organizational changes were made but line authority was not instituted. The report notes,

> The reorganization will not change the overall responsibilities or alter the managerial partnership which should exist between CI field divisions and their District Directors. Under the reorganization, District Directors will continue as the immediate supervisors of CI division chiefs. Their continued involvement in this capacity is essential for a number of reasons. District Directors provide a non-law enforcement perspective which is important on issues such as undercover operations, grand jury investigations, search warrants, armed escorts, etc.

- According to information given to the Committee, the current change of command for Special Agents is that Special Agents first report to their front line supervisor, or group manager. The group manager reports to a CI Assistant Branch Chief, or reports to the CI Division Chief. The Division Chief reports to a District Director, who in turn reports to one of several Directors of Investigation, who then reports to the Deputy Assistant Commissioner for CI and the Assistant Commissioner of CI.

- There are some matters, such as those to be presented to the Office of the U.S. Attorney, which make their way through the hierarchy noted above, in addition to the District Counsel's Office of the IRS for approval, and then to the Department of Justice Tax Division for approval, for eventual referral to the Office of the U.S. Attorney.

- The Committee has been informed that approval for undercover operations is still so tedious, that many CI special agents will hope another law enforcement bureau will work the case so that they may work alongside and not be burdened with the paperwork and approval process required by the CI. These agents note that if the IRS were to work the case, there are so many layers of review, the case would never have a hope of taking place.

- It should be noted that the management changes that the Committee requested the IRS to look into were partially due to numerous complaints the Committee had received relative to the difficult, tedious, and time consuming approval method CI was using for commonly used law enforcement tools. This approval method for Special Agents to work undercover cases, surveillance, use consensual wiretaps, and apply for search warrants, among other things, took so long and were so burdensome, that CID agents routinely let good cases go just because of the paperwork and red tape required to work them.

Question: It has now been several years since the CI organization study was undertaken and its recommendation placed into practice. Can you please tell the committee if the circumstances have changed for the street agent, or criminal investigator working at the street level, with regard to the amount of time the investigator needs to obtain approval for the following: 1) use of an undercover agent to make a purchase or sale of illegal goods, or obtain information, or 2) use of an informant to obtain illegal goods or services, or obtain information.

Answer: Due to the invasive nature of undercover operations, CI is diligent in exercising care that this tool is used properly and only when necessary to effect the most efficient enforcement of the criminal statutes within IRS jurisdiction. The planning and approval phase for undercover

operations begins with the preparation of an undercover operation request at the district office. After an undercover operation request has been reviewed by the District Director at the district office, it is submitted to the Regional Director of Investigations. Requests for Group I operations, if approved by the Regional Director of Investigations, are then submitted for final review and approval to the Headquarters' Office of Criminal Investigation.

Typically, our undercover agents or confidential informants working at our direction, do not become involved in the purchase of illegal goods, i.e., narcotics. When illegal goods are involved in the investigation, Criminal Investigation is normally working jointly with other law enforcement agencies that have principal jurisdiction for the illegal goods.

Question: Can you outline for the Committee the number of a) levels of supervision, b) approximate time it takes in minutes, hours, or days, it averages for the street-level special agent to obtain approval to proceed with each circumstance delineated above, before the 1993 change, and at present?

Answer: A Group II (operation not expected to last longer than 6 months or cost more than $10,000) undercover request requires signatures at four levels, the group manager, the Chief, the District Director and the Director of Investigations, who is the approving official. A Group I (operation projected to exceed either 6 months in duration and/or $10,000 in cost or involve unusual or sensitive issues) undercover request requires the signatures of a Group II plus the signature of the Assistant Commissioner (CI), who is the approving official.

Typically, once the Group Manager submits a request, it takes approximately 21 days for a Group II and 33 days for a Group I undercover operation to be approved.

CI's reorganization in 1993 eliminated the IRS Regional Commissioner from the undercover review and approval process. The elimination of this approval level saved about 4 days in the process.

The District Director is the only non-Criminal Investigator that is involved in the review and endorsement of an undercover operation. If a disagreement arises between the District Director and the Chief, Criminal Investigation, the matter is treated as a law enforcement issue and is elevated to the Director of Investigations and/or the Assistant Commissioner for resolution. To date, we have not had any operations elevated under these circumstances.

The Service's approval process for undercover operations is consistent with guidelines issued by the Attorney General regarding the approval and conduct of sensitive undercover operations. These guidelines require that sensitive and costly undercover operations be approved at the Headquarters level of any agency.

Most payments to informants for information are generally authorized within a day. Unusual or sensitive items will take longer. At the district level, the Chief, Criminal Investigation, is authorized to approve payments of $2500 or less and the District Director can authorize $5,000. The Director of Investigations can authorize up to $10,000. Informant payments greater than $10,000 require approval by the Assistant Commissioner (CI). As with undercover requests, the Regional Commissioner has been removed from the approval process of large dollar informant payments.

<u>Automation of Criminal Investigation</u>

- Fiscal Year 1995 marked the pilot, or initial phase, of a new Automated Criminal Investigation System, which was designed to permit CI employees to use information from sources throughout the law enforcement community.

- This new criminal investigation system was designed to be part of a four-tiered refund fraud strategy. The fourth part of the strategy was for CI to, "take vigorous enforcement action when fraud is uncovered – working with the Department of Justice and the U.S. Attorneys are actively pursuing criminal investigations."

Question: Can you please outline for the Committee the progress the CI has taken to work with the Department of Justice and the U.S. Attorney's office in furtherance of the automation of the Criminal Investigation Division?

Answer: CI has continued to develop the FOCUS system. Early tests involving small states showed that the system is able to identify leads to individuals warranting further investigation. However, implementation of the system has been slowed somewhat by the need to publish a new system of records notice. We anticipate being able to resume testing of the system on a large state within 60 to 90 days.

We have had ongoing discussions with the U.S. Customs and the Secret Service regarding the applicability of the FOCUS processing technology to their investigative needs. The U.S. Customer Service in Phoenix, Arizona, will be testing the software within the next few months to determine the feasibility of identifying leads to drug smuggling and related money laundering activities. The Secret Service has expressed interest in the FOCUS software as a tool for analyzing leads regarding threats to the President and others.

While CI has not been working directly with the FBI or U.S. Attorney's office in testing the FOCUS software, we did successfully use an early version of the software to analyze data from four states related to the Oklahoma city bombing. Those analyses identified leads and validated the usefulness of the FOCUS software in processing large amounts of data. After further testing, we expect to share leads generated and the FOCUS technology with any other federal law enforcement agency that can benefit from its use.

Question: Can you please outline for the Committee how the new Criminal Automation System is working for the street-level special agent in CI? Specifically, has this new system been completed and has it met its objectives?

Answer: Software which assists field agents with evaluation and processing of evidence has been distributed throughout CI. Custom applications have been designed and deployed which provide a wide range of functionality. The installed software base is enhanced on a continuing basis, and the distribution of notebook computers to special agents is nearing completion. Connectivity between CI posts of duty is being provided via a secure network strategy which is currently being implemented.

Money Laundering

- The currency transaction form (CTR) that is filed most frequently with the IRS is contained in a centralized database; it does not contain any additional information describing the suspicious activity that would be useful as an intelligence source for initiating an investigation.

- Other forms used to report suspicious transactions, which described the activity so that the information can be evaluated, are not contained in a centralized database, but are filed with six different federal financial regulatory agencies, with copies forwarded to the local IRS district office.

- The use of these forms varies among IRS' 35 districts. According to the GAO, there were no IRS procedures or policies as to how information contained in these suspicious transaction reports should be managed as an intelligence resource. Thus, IRS did not know how many reports had been received nationwide, and IRS could not assess the management of the reports from an agency wide perspective.

Question: What changes, if any, will the IRS pursue, with other financial regulatory agencies, in how suspicious transactions are to be reported and how the information is to be used?

Answer: As of April 1, 1996, all suspicious transactions at financial institutions are to be reported to FinCEN on a Suspicious Activity Report (SAR), Form TDF 90-22.47. The SAR is received and computerized at the IRS Detroit Data Computing Center for FinCEN. CI has instituted procedures for special agents in the field to obtain these SAR forms electronically for

evaluation and investigation. The IRS will make use of this information as appropriate in criminal and civil enforcement of the tax laws and related statutes. All the other federal law enforcement agencies have equal access to the SAR information for their evaluative and investigative use.

Question: Why has the number of percentage of money laundering cases declined over the past year?

Answer: There are many factors to consider in explaining the decrease in CI's "number" of money laundering cases. In the last 6 years, CI has investigated more than 12,000 money laundering and currency crime cases. CI participates to some degree in most major money laundering investigation within the United States conducted by other law enforcement agencies. CI participates as an active investigative partner in the investigation or as a "consultant" or "advisor" to the investigative agency or U.S. Attorney on investigative techniques, methods of proof, or at times, as expert witnesses.

Since 1986, CI has assisted in training of many other federal agencies, DEA, FBI, and Secret Service, in conducting money laundering investigations related to criminal statutes they enforce. It was expected, and only natural, that after this training they would be able to conduct money laundering investigations on their own.

In 1994, CI developed a "National Money Laundering Strategy" that directed that CI will "identify, investigate, and prosecute the most significant tax, currency, and money laundering offenders...Due to its limited resources and specialized expertise, CI will prioritize its efforts in currency reporting and money laundering enforcement to address those investigations whose size, scope, and complexity require the value added financial expertise of its special agents." CI is following its Money Laundering Strategy to investigate only the "most significant" money laundering cases and "Prioritize" its investigative efforts.

Question: Has the Criminal Investigation focused its efforts on other priorities such as legal income cases?

Answer: CI recently initiated a Tax Gap Strategy to assist it in delivering a balanced tax enforcement program that includes legal and illegal income cases, as well as money laundering and currency reporting crime cases. The Tax Gap Strategy has necessitated that CI prioritize its application of special agent resources to address legal industry fraud issues, such as health care fraud, bankruptcy fraud cases, excise tax, and motor fuel fraud.

Violent Crime Reduction Trust Fund

- No requests have been made for FY 97 for IRS from the Violent Crime Reduction Trust Fund. Certainly some funding would have been available had the request been made. No request could be indicative of a long-standing tradition within the IRS that illegal income investigations are not a priority.

Question: Why is CI-IRS the only federal law enforcement agency that has not made a request for funds through the Violent Crime Reduction Trust Fund?

Answer: CI requested funds under the Violent Crime Reduction Trust Fund. However, our request was not forwarded to Congress since we had requested an increase in staffing to deal with money laundering of Street Gang profits from the sale of drugs. The decision of the Office of Management and Budget was not to fund staffing requests with the funds from the Violent Crime Reduction Trust Fund.

Question: Does the criminal investigation foresee any initiatives where funding will be sought from the Violent Crime Reduction Trust Fund in the remaining years of available money from the Trust Fund?

Answer: CI will continue to seek funding for those program areas that directly relate to a reduction in violent street level crime. However, due to the types of investigations conducted by

CI, direct involvement in violent street level crime is minimal except in isolated areas such as Street Gang money laundering and organized crime.

Law Enforcement Vehicles

- The cost of vehicle equipment for the IRS-CID is almost double what other Treasury law enforcement bureaus spent on equipment for their vehicles. Most other Treasury bureaus averaged between $4,800 and $5,200 to equip their vehicles, whereas CID averaged approximately $9,800.

- In its justification, CID claims that the cost is due to the use of the ultra-high frequency (UHF) and very-high frequency (VHF) bands in order to have effective communications with other law enforcement agency task forces. The second radio, or very high frequency (VHF) band radio, allows communications with other federal, state, and local law enforcement agencies.

- The Committee does not dispute the need for a second band radio for communications with other federal, state and local law enforcement entities. The Committee questions the need for two radios in almost every vehicle the IRS-CID utilizes.

Question: What percentage of the vehicles assigned to CI are equipped with both a UHF and VHF radio system?

Answer: CI currently has 97 percent of its vehicles equipped with both UHF and VHF radio systems.

Question: Can all of the vehicles with UHF and VHF radios be justified?

Answer: CI needs the flexibility to respond to law enforcement actions nationwide without consideration of the communications capabilities of each individual vehicle. We deal on a daily basis with other law enforcement agencies as a result of our participation in multi agency task forces. In addition, we supply resources including vehicles to support the U.S. Secret Service during election periods. Finally, one of the major issues facing the Public Safety Wireless Advisory Committee in the preparation of its report to the Federal Communication Commission and the National Telecommunications and Information Administration deals with the inability of the various public safety agencies to talk to each other during emergency situations such as the Oklahoma City bombing. Criminal Investigation has taken steps to deal with this problem pending a better solution.

Treasury Forfeiture Fund

- Handling of seized property, and maintenance costs of property not disposed of expeditiously. The GAO has criticized the IRS' handling of seized property. The concern is the seizing of possessions without expeditiously bringing the forfeitures to resolution.

- The Committee is also concerned that the IRS has significant properties in its inventory which are many years old and it may prove to be very costly to store these properties.

- On February 14, 1996, the Subcommittee wrote a letter to Deputy Secretary Lawrence Summers requesting an accounting of all seized non-tax properties of the IRS which are currently in inventory. As of this date, the Committee has not received a reply. The question below is a reiteration of the request outlined in that letter.

Question: Would you please provide the Committee with a report detailing the accounting of all seized nontax properties of the IRS which are currently in inventory? The accounting should include the fair market value of each item, the date seized, storage and maintenance costs incurred since seizure, and the current status of each seized asset. The report should also include a detailed explanation for the delays in the processing of each seizure. What

procedures does the IRS utilize to maintain oversight of IRS' nontax seizure actions such as reporting requirements, internal reviews, policy direction, and guidance?

Answer: CI has devoted significant resources to managing its seized asset inventory during the past few years. While there are a few properties that have not been disposed of as expeditiously as CI would like, such delays are largely the result of the time necessary for the U.S. Attorney's Office (USAO) and the courts to process forfeiture cases.

During the investigation of potential criminal violations of Titles 18 and 31, CI may make nontax seizures for forfeiture under either an administrative or judicial forfeiture proceeding. In an administrative forfeiture proceeding, certain types of property may be forfeited to the United States by the investigative agency that seized the property, without judicial involvement. Such seizures, and the related procedures, are within the control of CI. A judicial forfeiture proceeding is initiated by the appropriate United States Attorney through the filing of a verified complaint with the federal district court. It may be either a civil forfeiture or a criminal forfeiture proceeding which ultimately results in a judicial order of forfeiture. Judicial forfeiture proceedings are required when (1) property to be seized exceeds certain dollar limits; (2) other policies require it, such as in the case of (a) real property which must be forfeited judicially; or (b) grand jury proceedings produce evidence to support forfeiture of property; or (3) a claim and cost bond has been filed in an administrative forfeiture action by a defendant or other party in interest, thereby requiring referral of the administrative forfeiture action to the USAO for initiation of a judicial forfeiture proceeding.

CI is fully aware of the "overage" issue and has taken a proactive approach to moving its inventory while ensuring that all procedural steps have been taken to protect the rights of the parties involved. Please keep in mind that CI management has made a conscious decision to tie its seizures and forfeitures to its main mission of investigating and prosecuting criminal violations of the law. As a result, the expeditious conclusion of seizures is heavily dependent on the conclusion of the criminal investigation and on the initiation and conclusion of criminal proceedings by the USAO. CI generally works lengthy, complex financial investigations and any related seizures generally take longer to resolve. This is especially true when comparing CI to other agencies, which have a larger number of uncontested seizures not directly related to a specific criminal investigations.

You requested a detailed explanation for delays associated with each seized nontax property that IRS has in its inventory. Report A summarizes the count and value of all unforfeited and undisposed Title 18 nontax seizures as of February 29, 1996. It further divides this inventory by type of forfeiture action (administrative, civil judicial, and criminal judicial) and whether the length of time since seizure meets the "overage" category as defined by the Executive Office for Asset Forfeiture (6 months for administrative actions and 24 months for civil judicial actions). This summary shows that the majority of the properties seized by the IRS are either cash equivalents which do not incur storage and maintenance costs. To the contrary, the majority of these assets are on deposit with the U.S. Government and earn interest for the Treasury Forfeiture Fund.

Report A also shows that the vast majority of the CI seizures are in the judicial forfeiture process. These actions are under the control of the United States Attorneys and the courts. Therefore, additional factors must be considered, such as USAO workload constraints; court backlogs; and legal motions, including appeals; etc. CI does not abrogate its responsibility in these matters. Each district CI Chief has certified that they have contacted the appropriate USAO and are satisfied that the forfeiture is proceeding as quickly as possible, considering the workload and priorities of the USAO. All appropriate due process procedures have been followed.

CI has interacted with various USAOs throughout the country, in local meetings and national conferences, to address issues of mutual concern, especially the matter of prompt resolution of seizures. The consensus is that forfeiture actions should not be pushed to the detriment of criminal prosecutions. Recent case law has required this cautious approach. In some jurisdictions, forfeiture of defendant's assets may bar other enforcement action, such as prosecution for acts giving rise to the forfeiture, under the Double Jeopardy Clause of the Fifth

Amendment and/or excessive fines clause of the Eighth Amendment. The double jeopardy issue may be resolved by the Supreme Court decision in United States v. $405,089.23, which is expected in June of this year. It is anticipated that once the Supreme Court decides this case, many of the judicial seizures in the United States Attorney's inventories will be resolved.

Report A further reveals that administrative forfeiture actions, those that are controlled within the CI, are limited to 30 assets, only 2 of which are nonmonetary property. Procedures are in place at CI National Office, and district offices, to continually monitor the status of these seizures. Considering the extensive seizure activity performed by CI, this small number of "overaged" seizures does not appear unreasonable.

You also asked for information on storage and maintenance costs incurred since seizure on each individual asset. This information is in a variety of locations. The Treasury property management contractor, EG&G Dynatrend, accounts for all costs incurred while in its possession. In addition, many assets could have earlier costs associated with the United States Marshal's Service. CI has postponed requesting this additional information pending a meeting they have sought with members of your staff. We hope such a meeting to discuss these issues will negate or, at least, reduce the need for further efforts.

CI has made substantial efforts to improve its forfeiture program over the last 3 years. These improvements include:

(1) Convening a group of experienced CI forfeiture experts to rewrite and update its asset forfeiture procedures. These revised procedures were incorporated into its special agent handbook which is provided to each CI special agent.

(2) Modernizing CI's Asset Forfeiture Training (AFTRAK) System; designing management reports to provide better control over seized assets; and consolidating data input to achieve better quality control over the IRS database.

(3) Adding a comprehensive forfeiture section to the review plan which is used during district reviews. This serves to heighten managerial accountability for the program.

(4) Creating a separate section in the CI National Office to deal solely with asset forfeiture matters and ultimately assigning an individual with Division Chief experience to supervise the operation. Experienced front-line supervisors were also brought in to staff this section. Each IRS district has designated an Asset Forfeiture Coordinator (AFC), usually a senior special agent, who has overall responsibility for their seizure program. Contract staffing has been increased at both the National Office and field level to assist district AFCs and conduct quality reviews of district operations.

(5) Improving communication to the field on forfeiture matters. A monthly forfeiture newsletter was created in June 1994. All forfeiture personnel have been linked electronically and given on-line access to the AFTRAK seized property inventory for which they are responsible. New AFC training is conducted as needed as well as annual national forfeiture conferences. Electronic imaging and storage of seizure files are also in progress.

(6) Revising physical inventory and reconciliation procedures in fiscal year 1995. These included several required district certifications throughout the year to stress the importance of a quality seizure program with timely and accurate data reflected in its inventory system. At National Office, a number of system queries were conducted to detect potential problems and ongoing discussions were held with district asset forfeiture personnel to prevent problems before they occur. Year-end procedures to comply with Federal Accounting Standards Advisory Board Opinion #3 and subsequent Treasury Department guidance were automated. These efforts contributed significantly to the first

unqualified opinion being issued by independent auditors for the Treasury Forfeiture Fund financial statements for fiscal year 1995.

Report A

Title 18 Seized Unforfeited Property

	Held < 6 Months		Held > 6 Months		Totals	
	Count	Value	Count	Value	Count	Value
Administrative:						
Cash/Other Financial	53	$3,183,184	28	563,981	81	3,747,165
Other	63	$929,184	2	14,500	65	943,684
Totals	116	$4,112,368	30	578,481	146	4,690,849

	Held<2 Years		Held>2 Years		Totals	
	Count	Value	Count	Value	Count	Value
Civil Judicial:						
Cash/Other Financial	227	$47,584,359	961	$18,420,921	1,188	$66,005,280
Other	179	$11,589,200	363	$18,046,795	532	$29,635,995
Total	406	$59,173,558	1,314	$36,467,716	1,720	$95,641,274
Criminal Judicial:						
Cash/Other Financial	210	$10,265,019	103	$6,045,508	313	$18,310,527
Other	188	$15,474,175	58	$2,527,120	246	$18,001,295
Totals	398	$25,739,193	161	$8,572,628	559	$34,311,822
Total Seized Unforfeited	920	$89,025,120	1,505	$45,618,825	2,425	$134,643,945

Sharing and Contributions to the Forfeiture Fund

- In fiscal year 1994, IRS stated that it contributed $37,357 million to the Treasury Forfeiture Fund or 20% of the total deposits.

Question: What amount did you contribute in FY 95? To what do you attribute the increase or decrease from the previous year?

Answer: The IRS contributions to the Treasury Forfeiture Fund in FY 95 were $56.163 million. The increase over FY 94 contributions can be attributed to several factors. First, FY 94 represents the first year of IRS participation in the Treasury Forfeiture Fund. The cyclic process of seizure, forfeiture, disposition, and ultimately the deposit of proceeds into the forfeiture fund oftentimes covered more than 1 fiscal year. Hence, some of the proceeds deposited in FY 95 represent actions taken in FY 94. Secondly, overall improvements in the seizure/forfeiture program from 1 year to next, resulted in a smoother process, enabling funds to be deposited more expeditiously in FY 95.

Question: Can you please identify how much you received back from the Fund for Fiscal Years 1994 and 1995? Can you also identify how those funds were used?

Answer: As part of the FY 95 budget allocation, Criminal Investigation received approximately $30.249 million in resources from the Treasury Forfeiture Fund. The approximate resources received by or expended on behalf of the agency are listed below by their respective discretionary or mandatory expense category (dollars in millions):

DISCRETIONARY EXPENSES [31 U.S.C. 9703(A)(2)]:

Awards for Information or Assistance	$ 0.100
Equipping of Federal Law Enforcement Conveyances:	
Purchase of Mobile Radios	2.550

Vehicle Repair and Nonrecurring Expenses	0.100
Purchase of Electronic/Technical Equipment	0.510
Total Discretionary	$ 3.260

MANDATORY EXPENDITURES [31 U.S.C. 9703(A)(1)]:

Proper Expenses of Seizure:	
Purchase of Evidence	$ 0.398
Purchase of Information	0.053
Investigative Expenses	0.474
CI Forfeiture Personnel	2.140
CI Details to T-EOAF	0.270
Payment of Liens and Mortgages	1.758
Payment of Remission and Mitigation	1.697
Equitable Sharing Payments	17.707
Reimbursement of State/Local Law Enforcement Agencies	0.152
Data Systems, Training:	
Data Systems	0.100
ADP Equipment	0.039
General Training	0.088
CATS Training	0.008
Printing	0.025
Contract Services	1.980
AFTRAK Conversion	0.100
Total Mandatory	$26.989
TOTAL TREASURY FORFEITURE FUND EXPENDITURES	**$30.249**

The FY 94 budget allocation was as follows (dollars in millions):

DISCRETIONARY EXPENSES [31 U.S.C. 9703(A)(2)]:

Equipping of Federal Law Enforcement Conveyances:	
Purchase of Mobile Radios	$ 2.028
Vehicle Repair and Nonrecurring Expense	0.023
Purchase of Electronic/Technical Equipment	0.466
Data Systems, Training:	
ADP Equipment	1.113
Training	0.335
Contract Services	1.681
Total Discretionary	$ 5.647

MANDATORY EXPENDITURES [31 U.S.C. 9703(a)(1)]:

Proper Expenses of Seizure:	
Purchase of Evidence/Purchase of Information	$ 0.816
Investigative Expenses	0.394
CI Forfeiture Personnel	2.001
Payment of Liens and Mortgages	1.008
Equitable Sharing Payments	16.503
Total Mandatory	$20.722
TOTAL TREASURY FORFEITURE FUND EXPENDITURES	**$26.369**

User Fees

- The FY 95 bill permitted IRS to collect fees and supplement certain appropriations activities with those receipts up to $119 million annually.
- IRS decided to charge fees of $43 and $24 to cover the costs for establishing new and restructured installment agreements.
- It also decided to increase the fees for Enrolled agents from $25 to $80. It can only keep the amount in excess of the $25 or $55.
- From these fees, IRS supplemented the Returns Processing Account.
- Instead of raising the estimated $119 million, IRS collected $39.883 as follows:

New Installment Agreements	$ 33,036,281	
Restructured Installment Agreements	$ 6,641,000	
Enrolled Agent Fees		$ 205,242

Question. Why are the receipts from user fees almost 1/4 of the amounts projected in FY 95?

Answer: When IRS initially prepared its fiscal year 1995 budget request, it included provisions to collect and use $147 million worth of specific user fees, offsetting appropriated amounts of funding only as the user fees were actually collected. Congress, however, withdrew the funding from the request up-front and authorized IRS generically to implement, collect, and keep user fees up to $119 million annually.

IRS' $147 million estimate assumed a full year of specific user fees, including $87 million for direct deposit indicator user fees and $54 million for installment agreement user fees. IRS subsequently dropped the direct deposit indicator program, so no user fees were ever implemented for that program. During development of the installment agreement user fees, IRS revised the basis for the fee and the amount of the fees. Internal IRS decisions on the user fees and the formal regulatory process for implementing the user fees delayed implementation of the fees until March 16, 1995, when almost half of the fiscal year was over. Finally, as might be expected, there were some minor administrative problems associated with collecting these new user fees.

Question. Do you expect the proceeds from these fees to increase in '97, if so, by how much?

Answer: For fiscal year 1996, IRS expects net user fee collections (after paying FMS for their lockbox services) of about $65 million. In fiscal year 1997, IRS expects this amount to increase to $85 million, depending on cost and pricing reviews that are now underway.

Question. Can these fees be restructured in any way to ensure that at least $119 million in receipts are realized?

Answer: Yes. The Office of Management and Budget (OMB) requires agencies to base their user fees on actual costs of providing the service and to review their user fee costing every two years; so it is possible that IRS might be increasing the installment agreement user fees during fiscal year 1997. Additionally, IRS is considering implementing user fees for other appropriate activities, i.e., those which provide specific benefits to a limited portion of the population. Between these two changes, the IRS may be able to realize at least $119 million in user fee receipts, but most likely not until fiscal year 1998.

Question. Are there any other activities for which IRS may want to charge or increase fees to offset operation costs? If so, please identify.

Answer: IRS has considered and continues to consider other activities for which user fees would be appropriate. However, no decisions have been made at this time on implementing user fees for any of these.

Financial Status Audit Techniques

It is my understanding that the IRS is utilizing "financial status" audit techniques, formerly known as "economic reality" audits, in which the IRS seeks information about a taxpayer's lifestyle, about where and how a taxpayer spends his/her money, and asking questions like:

- What is your educational background?
- Where do your children go to school?
- Where do you go on vacation? How much do you spend?
- Do you have a safe deposit box? Where? What is in it?

Question: When is it appropriate for the IRS to use financial status auditing techniques in auditing a taxpayer?

Answer: The detection of unreported income is essential in performing quality examinations,; in ensuring that the tax system is fair and equitable for all taxpayers; and in addressing a significant portion of the tax gap (an estimated $62 billion of the $127 billion income tax gap is attributable to unreported income).

For the average wage earner, the IRS is able to verify virtually all income and most deductions by matching information returns (Forms W-2 and 1099) with the individual income tax return. Thus, these audit techniques are generally not appropriate in an examination of a wage earner unless there is an indication of income not subject to information reporting.

Fair and equitable treatment of wage earners and non-wage earners necessitates that during an examination we will ensure that income and deductions reported by businesses and the self-employed are substantially correct. Examiners must evaluate the facts and circumstances of each case and apply judgement. It is not an efficient use of resources to have examiners perform in-depth income (in-depth probes include indirect methods of determining income, such as cash flow transactions, bank deposits source and application of funds and net worth) probes and ask questions about personal assets and personal expenditures when there is not reasonable indication of unreported income. These indirect methods of determining income require a determination of the monies spent for personal assets and support of the family.

Question: Shouldn't there at least be a suspicion of unreported income before they [financial status auditing techniques] are undertaken?

Answer: The more in-depth income probes should only be employed when there is a reasonable indication of unreported income. For example, when the taxpayer has a double entry set of books, strong internal controls, and there is no other information that would indicate income is unreported, limited income probes, such as interviewing the taxpayer, to conclude the examination should be used. When internal controls are weak, the return reflects high asset accumulation but very little income or losses reported from the business and/or the business is primarily conducted in cash, sound auditing principles require that more in-depth probes be conducted to verify gross receipts.

Question: Under what circumstances would these techniques be appropriate at the beginning of a routine examination?

Answer: When the return reflected high asset accumulation but very little income or losses were reported on the return, there would be a reasonable indication of unreported income. Thus, the in-depth probes would be appropriate.

Question: Would they ever be appropriate at the beginning of a routine examination when no suspicion of unreported income exists?

Answer: When there is no reasonable indication of unreported income, limited income probes, such as interviewing the taxpayer, to conclude the examination would be used.

Question: Is the IRS conducting these technlques without notifying the taxpayer of his right to representation under the 1988 Taxpayer Bill of Rights?

Answer: All taxpayers receive Publication 1, Your Rights as a Taxpayer, and Publication 5, Appeal Rights and Preparation of Protests for Unagreed Cases with the letter notifying them of the audit. The publications explain their rights to representation.

Question: How frequently and in what circumstances are taxpayers being requested to fill out Form 4822, Statement of Annual Estimated Personal and Family Expenses?

Answer: Form 4822, Statement of Annual Estimated Personal and Family Expenses, is a pro-forma audit aid designed to assist examiners organize, categorize, and evaluate information regarding personal living expenses. The form is included in the work papers to support the examiner's conclusions. Examiners are not required to use the form and, therefore, the frequency of its use is undeterminable.

Use of an indirect method of determining income requires a determination of the monies spent for personal assets and support of the family. Our intent is to arrive at the best determination of monies spent for these items. We believe this can best be done with the taxpayer's involvement. Examiners may ask taxpayers to "complete the form" because it helps organize the information and the most common categories of expenses are identified.

Question: The IRS lacks the authority to require a taxpayer to fill these forms out. (See IRS National Office's Economic Reality Training Modules...no specific authority exists to require the taxpayer to fill out a PLE.) If the IRS does not have the authority, are taxpayers being informed of their right to refuse to fill out these forms?

Answer: In a March 25, 1996, memorandum from Tom Wilson, the acting Assistant Commissioner (Examination), the use of Form 4822 is again addressed and de-emphasized. In part, the memo reads:

> The revenue agent at this phase of the examination (initial interview income probe) should attempt to secure from his conversation with the taxpayer, sufficient facts which will enable him to survey the overall financial picture of the taxpayer. The examining officer should then be in a position to see if the taxable income reported bears a relationship to the taxpayer's net worth and manner of living. **This does not translate to automatically sending a Form 4822 with the appointment letter.**
>
> Consistent with the Declaration of Privacy Principles, examiners generally look to the taxpayer or representative as the primary source of information to complete the examination. However, as stated in Publication 1, Your Rights as a Taxpayer, which every taxpayer under examination receives:
>
> "You [the taxpayer] have the right to know why we are asking you for information, exactly how we will use any information you give, and what might happen if you do not give the information."

Examiners are instructed to explain why the information is needed and how it will be used.

Question: Is the IRS utilizing these techniques primarily in auditing small businesses and self-employed taxpayers? Are they being used for individual filers?

Answer: For the average wage earner, the IRS is able to verify virtually all income and most deductions by matching information returns (Forms W-2 and 1099) with the individual income tax return. Thus, these audit techniques are generally not appropriate in an examination of a wage earner unless there is an indication of income not subject to information reporting.

Fair and equitable treatment of wage earners and non-wage earners necessitates that during an examination, we will ensure that income and deductions reported by businesses and the self-employed are substantially correct. However, examiners are not to assume that an audit of

a business or self-employed taxpayer automatically means there is unreported income and therefore use in-depth income probes on every audit.

Question: Are these audit techniques being used as part of any compliance measurement programs whereby taxpayers are picked at random for audit?

Answer: No. The only program for which returns are randomly selected is the Taxpayer Compliance Measurement Program (TCMP). The IRS had planned to begin TCMP examinations on October 1, 1995. The 1996 budget required the IRS to limit its compliance programs. For that reason, the IRS decided to postpone the TCMP program.

Question: What safeguards has the IRS taken to ensure that these techniques are being used appropriately and that taxpayers rights are being protected?

Answer: Four memoranda have been issued to field examiners stressing the purpose and appropriate use of these techniques since August 1995. Training materials are being revised to address concerns raised since the original training material was distributed.

The Internal Revenue Manual addressing the scope of examination has been significantly revised to include discussions of taxpayer's rights, financial status analyses, and clarify the minimum requirements for income probes. The revisions are in the review process and will be published in the near future.

On April 1, 1995, the quality measurement system used by Examination was expanded to include evaluation of financial status analyses and the technical correction of the results. The evaluation also includes consideration of disclosure issues such as the taxpayers' right to privacy and protection of confidentiality, taxpayers' rights to representation, proper third party contacts, and proper disclosure of returns and return information under IRC 6103.

Question: Do these techniques stress the used of "face-to-face" interviews with taxpayers? Isn't the IRS attempting to cut down on the need and use of "face-to-face" interviews?

Answer: The IRS is attempting to use non-face-to-face techniques (telephone, correspondence, etc.) to resolve issues, when appropriate. Non-face-to-face techniques can generally be used to conduct an audit of simple, non-business individual income tax return. Face-to-face audits are and will be used for complex non-business and business tax returns.

Question: Given the extent and depth of information about a taxpayer these audit techniques seek, what is the IRS doing to ensure that this information is not being used improperly, that it is not being improperly accessed and that there is adequate security measures to protect the integrity of the information and the taxpayer's privacy rights?

Answer: Once an examiner has secured this information, it becomes part of the case file along with the original return and other work papers. The information is considered tax return information under Internal Revenue Code section 6103 and must be afforded the same security as the tax return. The physical security of taxpayer information is the same for all cases. All tax returns and taxpayer information is stored in secured areas, laptop computers used by our examiners include security codes to prevent unauthorized access, and case files are reviewed on a need-to-know basis only. There are extensive, detailed instructions for securing case files throughout the organization.

Question: Madam Commissioner, how would you feel, as an American citizen, being required to fill out Form 4822 or being asked about vacations or safe deposit boxes?

Answer: Frankly, it is highly unlikely that would happen. As I indicated earlier, the more in-depth income probes should only be employed when there is a reasonable indication of unreported income. The IRS does not routinely ask for that type of information of any American citizen, unless it has a reasonable indication of unreported income. Further, as I indicated earlier, examiners are not required to use the Form 4822 and it is not required to be included in the examiner's work papers. A taxpayer does have the right to know why the information is being requested and exactly how it will be used as indicated in Publication 1.

AMCOR

Question: I've heard from many constituents who invested in AMCOR Capital Corporation about what they believe to be unfair treatment from IRS – in that the IRS has sought civil action against these investors, which to my knowledge were never suspected of wrongdoing in the IRS's fraud case against AMCOR. Why are the investors ultimately being held responsible for the intentional fraudulent activities of a few farmers?

Answer: Under the tax laws, investors in partnerships, both general partners who take an active role in managing the partnership and limited partners who generally play a passive role in partnership operations, only can claim deductions, credits or other flow-through tax items on their individual tax returns to the extent those items were an outgrowth of the partnership's operations. Thus, even though limited partners receive notice from the partnership to report certain amounts as losses or credits, those losses or credits can only properly be claimed by these partners if the partnership was actually entitled to claim them in the first instance.

The IRS concluded that these partnerships had not properly reported various tax items. The IRS has never claimed that any of the limited partners who only invested in the AMCOR-sponsored partnerships were responsible for any fraudulent conduct. The adjustments the IRS made to the partnership income, deduction and credit items were made to correct misreportings initially made by the partnership. The correctness of these adjustment is the focus of the pending Tax Court litigation.

As explained in the answer to question 1, the investors are not being charged with any fraudulent conduct. Rather they are being asked to pay additional taxes that, under the Internal Revenue Code, are properly due. Since the partnerships in which they invested did not actually conduct the farming operations claimed on the partnership returns for the first one or two years of existence, the partners may not properly claim deductions and credits on their individual tax returns as though those farming operations had taken place.

Question: Why were these deductions improper? If they were, how can any investor protect himself/herself in such a circumstance?

Answer: The deductions could not properly be claimed, because, in the absence of farming activity that actually took place, there is no basis under the tax laws for allowing the deductions and credits that were claimed by the partnership. With most investment activity, investors face some financial risk when they entrust their monies to others. The wisest course for any investor is to rely upon competent, independent professional advice before making an investment.

Question: Did the IRS conduct an investigation into allegations of misconduct in the AMCOR case ?

Answer: Initially, in June 1991, IRS Internal Security received a complaint from AMCOR Attorney Roger M. Olsen that an unnamed IRS employee may have disclosed AMCOR tax information. During July 1991, Olsen declined Internal Security's request to provide additional information to further clarify the allegations. Olsen stated that he was contemplating referring these allegations directly to the Department of Justice. Based on Olsen's response, IRS Internal Security was unable to pursue further investigation.

Congressional correspondence received by United States Senator Bob Packwood, and forwarded to the IRS during October 1992, was received by IRS Internal Security. It contained a letter from Attorney Daniel L. Merriman to AMCOR investors concerning the IRS civil and criminal investigation of AMCOR. In the letter, Merriman made allegations of IRS employee misconduct. Initial inquiries by IRS Internal Security determined that the IRS criminal case, a Grand Jury Investigation related to AMCOR, was awaiting a Department of Justice prosecutive decision. IRS Internal Security also determined that these allegations had been referred to the Department of Justice. On February 11, 1993, further investigative efforts were suspended pending the DOJ criminal prosecutive decision.

In March 1993 DOJ declined prosecution of AMCOR. On May 6, 1993, AMCOR Attorney Daniel L. Merriman made written allegations of IRS employee misconduct to the Attorney General. The allegations were provided to AMCOR investors which generated congressional inquiries into the matter. The AMCOR allegations were provided to IRS Internal Security during September 1993, by the Department of the Treasury Inspector General.

Question: What kind of investigation was undertaken ?

Answer: On January 12, 1994 IRS Inspection initiated four Conduct investigations based upon Merriman's allegations. These investigations were titled in the names of IRS Criminal Investigation Division Special Agents and an IRS Revenue Agent involved in the AMCOR investigation. Upon the retirement of the lead IRS Special Agent, the Conduct case name was changed to the control investigation title "Complaint of AMCOR." This investigation concluded in May 1996.

The investigations included the interview of relevant sources of information, the review of service documents and interview of IRS employees involved with the IRS civil and criminal investigations related to AMCOR. The investigations did not include any Grand Jury activities or information because the Department of Justice declined IRS Internal Security's request for access to this information.

A letter from Merriman to the IRS Chief Inspector dated January 7, 1994 offered non-privileged material concerning his allegations. Internal Security attempted to interview Merriman and obtain his documentation to his allegations of IRS employee misconduct. On February 22, 1994, Merriman declined to provide information or to be interviewed pending the deposition of the Case Inspector by AMCOR counsel. On June 21, 1994, Merriman informed the Case Inspector that he would notify him when he was available for interview. A letter dated July 7, 1994 from Merriman indicated that he did not feel free to provide information until the conclusion of the deposition of the Case Inspector by AMCOR counsel. On July 29, 1994, during a telephone call, Merriman agreed to send copies of the relevant information to the Case Inspector during the week of August 15, 1994 and to make himself available for interview after review of the documents. On August 19, 1994, a telephone call was made to Merriman to determine the status of the documents that had not been received. Merriman stated that he had not sent the documents and would not be able to send them until after labor day. On October 12, 1994, AMCOR filed a Bivens action in the United States District Court, Central District of California which alleged violation of constitutional rights by IRS employees. Merriman did not provide information to IRS Internal Security.

Upon completion of the review of available and relevant information relating to the IRS investigation of AMCOR, the decision to close the investigation was made. A report of the investigative findings from January 1994 through May 1996 was prepared and closed. Internal Security contacted DOJ Attorney Gretchen Wolfinger to advise her of the result of our investigation. On May 5, 1996, Wolfinger corresponded in a letter to Merriman of IRS Internal Security's intent to close the investigation and requested that he provide any information he had available to IRS Internal Security by May 10, 1996. On May 10, 1996 Merriman responded in writing to Wolfinger that his offer remained open. Upon reasonable notice, he would make a volume of documents available to the Case Inspector which required an explanation from Merriman, and he would provide access to a copier (at exact cost of $0.05 per page). Merriman further noted that if AMCOR's appeal was granted regarding the Bivens action, it was his understanding the Plaintiffs will call the Case Inspector as a witness. Merriman will be contacted and any relevant information and leads will be reported in a supplemental report.

Question: Were conclusions reached by IRS Inspection whether misconduct occurred or not? What was the extent of the investigation, what was the depth of inquiry undertaken by the IRS in responding to the concerns raised by congressional inquiry?

Answer: The investigation determined that Congressional inquiries containing Merriman's allegations of IRS and Department of Justice employee misconduct had been referred by the

IRS Laguna Niguel District to the Department of Justice for review and appropriate action. Contact with Keith Thomas, Department of Justice, Office of Professional Responsibility, confirmed that allegations by AMCOR had previously been sent to Department of Justice Acting Assistant Attorney General, Tax Division, James A. Bruton and that DOJ had received a number of Congressional inquiries, but no investigation was conducted by DOJ, because the allegations were "non-substantive". Thomas stated that DOJ declined further investigation of the matter. Investigation by IRS Internal Security did not develop information in conflict with the DOJ conclusion.

Question: Has the IRS ever made an official determination of whether misconduct or improper behavior occurred?

Answer: Bivens actions concerning similar and more detailed allegations of misconduct were filed on October 12, 1994 by AMCOR related attorneys against the Internal Revenue Service and multiple IRS employees. DOJ and IRS Counsel responded to the allegations of the misconduct concerning IRS employees in their response to the Bivens action. In this response, they concluded that all present and former Government defendants had acted within the scope of their authority with respect to these allegations and motions were filed to dismiss each defendant and the United States.

The United States District Court, Central District of California entered a decision on June 21, 1995 that the United States could not be sued for Bivens violations because the suit was barred by the one year statute of limitations. AMCOR counsel appealed the court's decision.

Additionally, IRS Counsel prepared a detailed response to AMCOR's allegations for the Tax Court. An Internal Revenue Service Chief Counsel "MEMORANDUM IN SUPPORT OF RESPONDENT'S OBJECTION TO PETITIONER'S MOTION FOR DISMISSAL OR ALTERNATE RELIEF BASED ON RESPONDENT'S (ALLEGED) MISCONDUCT" filed with the United States Tax Court, addressed the allegations of misconduct made by AMCOR's attorneys. The introduction stated, "Petitioners make many allegations of perceived governmental misconduct. Most of them are duplicative, speculative, unsubstantiated, or simply false. Often the allegations are vague insinuations, lacking specific names, dates, locations or demonstrations of prejudice." IRS Counsel refuted each allegation in a detailed 148 page response.

AMCOR counsel had previously made allegations of IRS misconduct to the Tax Court and on October 13, 1994 Judge James S. Halpern denied AMCOR counsel's motion for sanctions and wrote. "Besides having considered individually all of petitioners' allegations of conduct requiring sanction, we have considered them cumulatively. Our conclusion is still that no sanctions are appropriate."

IRS Internal Security's Investigation found no criminal or administrative misconduct based upon the allegations made by AMCOR attorneys.

Question: Do you believe that this case was handled properly?

Answer: This investigation was complex and technical in nature. The allegations and initial information thoroughly supported the initiation of the criminal investigation. The coordination of the investigation was complicated by multiple-district civil and criminal interests. Based on the information available at the time, the investigation was handled properly.

Question: Under what circumstances are cash bonuses awarded IRS agents? What function do they serve? Does the IRS have criteria or guidelines that they use in determining whether a particular IRS agent warrants a bonus?

Answer: The IRS has a formal Incentive Awards Program for its employees which is designed to reward employees for outstanding performance. These awards are based on the employee's annual performance rating for all aspects of the employee's job performance. In addition, the Service recognizes employees with special act awards, suggestion awards, and other miscellaneous awards. Awards are designed to recognize work performance which was

exceptional. These awards are not based on production, but rather on work quality, technical expertise and diligent effort shown by the employee. There are uniform guidelines which determines whether an employee's performance exceeds the standard.

Question: Is it true that the IRS agent that was identified as possibly engaging in questionable behavior in this case received a cash bonus for his work on the case?

Answer: Since 21 defendants were named in the civil lawsuit filed by AMCOR CAPITAL CORPORATION, it is assumed that this question is directed towards the conduct of Special Agent Goolkasian who was the special agent responsible for the development of the criminal investigation and authored the search warrant affidavit. Relative to Special Agent Goolkasian, a review of available records reveals that he was an outstanding investigator who received numerous awards throughout his career. Though no awards were found which were solely in recognition of his work on the AMCOR investigation, Special Agent Goolkasian did receive performance awards during 1989 and 1990 which were supported in part by reference in work on a tax shelter investigation.

Question: Don't cash bonus payments create incentive problems? Like the problems we saw with Justice of the Peace?

Answer: We are not aware of the issue concerning Justices of the Peace. Awards made to IRS special agents are in recognition of outstanding work performance, and not for production or as any percentage of potential tax assessments or collections. We are not aware of any incentive problems created by awards.

Question: What safeguards are in place to ensure that overzealous agents are not encouraged and/or rewarded through such an incentive system?

Answer: IRS special agents are criminal investigators who must comply with a myriad of rules, regulations, and policies of the Internal Revenue Service. Their work is supervised and reviewed by several levels of internal management, IRS Counsel, Department of Justice Tax Division, and the United States Attorney before any prosecution action is taken. Search warrants further require judicial review and approval by a United States Magistrate. Prosecutions of felony violations require grand jury review and indictment. We do not believe that the IRS award policies encourage agents to be overzealous.

SUBCOMMITTEE RECESS

Senator SHELBY. If there are no other comments, the subcommittee will stand in recess until next Wednesday, May 15, when we will review the budgets of the Executive Office of the President and the Office of Personnel Management. Thank you.

[Whereupon, at 3:30 p.m., Wednesday, May 8, the subcommittee was recessed, to reconvene at 2:23 p.m., Wednesday, May 15.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

WEDNESDAY, MAY 15, 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:23 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby and Mikulski.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF ADMINISTRATION

STATEMENT OF FRANKLIN S. REEDER, DIRECTOR

ACCOMPANIED BY JÜRG E. HOCHULI, ASSOCIATE DIRECTOR, FINANCIAL MANAGEMENT DIVISION

OPENING REMARKS

Senator SHELBY. The committee will come to order.

The Chair wants to apologize for the delay in the meeting, but most of you know that Senator Dole had a meeting of the Republican Senators, and we have got another big meeting at 3 o'clock, so I think everybody in this room understands all that.

PREPARED STATEMENT

I am going to make my opening statement a part of the record so I can move on.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SHELBY

Today the subcommittee will hear testimony from Frank Reeder, the Director of the Office of Administration, Executive Office of the President and James King, the Director of the Office of Personnel Management.

Because time is always of the essence, I am going to forgo any lengthy remarks.

Our first witness today will be Mr. Frank Reeder, Director of the Office of Administration, Executive Office of the President. Welcome, Mr. Reeder. As is our custom, your complete written statement will be made a part of the record. Please introduce your associates and proceed in any manner you wish.

PREPARED STATEMENT

Senator SHELBY. I would ask that your opening statement be made part of the record, and we will try to expedite the proceedings. Mr. Reeder.

Mr. REEDER. I thank you for the opportunity to be here today, sir, and my statement is being made part of the record. I certainly do not want to waste the time of the committee.

[The statement follows:]

PREPARED STATEMENT OF FRANKLIN S. REEDER

Good morning Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to be here this morning and testify on behalf of nine Executive Office of the President or EOP accounts.

I appear before you this morning to address the following nine accounts: Compensation of the President, the White House Office, the Office of Administration, Special Assistance to the President, the Official Residence of the Vice President, the Office of Policy Development, Unanticipated Needs, the National Security Council, and the Council of Economic Advisers. These fiscal year 1997 budget requests meet the President's mandate for a leaner government that works better for the American people.

The $85 million requested for these accounts is equal to the fiscal year 1996 request level, which is also equal to the original fiscal year 1995 enacted level. In other words, if these fiscal year 1997 requests are enacted, all these budgets will have been flat, or below flat, for three consecutive years in nominal terms. In constant terms, or adjusting for inflationary increases, these requests would represent a 6.8 percent reduction from fiscal year 1995 and a 5.6 percent reduction from fiscal year 1992.

Since the fiscal year 1996 enacted budgets for these nine accounts were all even with or below the original fiscal year 1995 enacted level, we had to make hard decisions, balancing changing needs with current fiscal reality. We have identified cost savings and made sacrifices to operate within the fiscal year 1996 funding levels. Staff travel was curtailed; office space requirements were reduced; hiring decisions were delayed; hiring for vacant positions occurred at lower levels; and new technology purchases were prioritized. While these measures produced much needed savings in both the prior and current fiscal years, we cannot expect these savings to be duplicated in the outyears.

Our fiscal year 1997 budgets, while remaining at the fiscal year 1996 request level, represent a marginal increase over the fiscal year 1996 enacted level for the White House Office and the Office of Administration. Even with this slight increase in funding, inflationary and pay increases will need to be absorbed again during fiscal year 1997. As in fiscal year 1996, hiring decisions must be carefully considered; all other administrative areas will be closely evaluated; and, additional cost saving measures will be carried out.

One of our greatest challenges has been keeping pace with technological developments. At the same time, as technology has imposed new demands, we in turn have used technology to help us live with shrinking budgets and to make this White House more accessible to the American people. For these reasons, and because so much of our budget request is devoted to technology, I will focus my remarks today on the impact of technology on the Executive Office of the President.

Among our greatest technological challenges is the ever growing public interest in electronic communications and access to White House information. The public's response to the White House Home Page on the Internet has been overwhelming. Since October 1994, the public has used the White House Home Page 5.5 million times and executed 80 million file transfers.

The public's response to e-mail accessibility has been equally impressive. During fiscal year 1995 the President, Vice President, and First Lady received nearly 393 thousand electronic mail communications from the public. During the first five months of fiscal year 1996 alone, we have already received almost 361 thousand e-mail communications. Public response to e-mail has more than doubled in just one year. If demand continues at the current rate, we can expect to receive at least one million e-mail communications in fiscal year 1996. Non-electronic correspondence has itself increased dramatically. During calendar year 1995, the White House received 4.6 million pieces of mail, a 21 percent increase over the 3.8 million pieces received in the third year of the prior Administration.

Another achievement has been the expanded use of a fax-on-demand system, initially installed in January 1995. Through this technology, anyone in the United States can phone or fax a request for any of hundreds of White House press releases and briefings, and various documents from the Office of Management and Budget. Callers can enter their fax numbers into the system and the documents are faxed to them within minutes. To date, the system has received almost 45 thousand calls. The implementation of this system has allowed us to handle growing public demand with reduced staff, and provides the public with a hands-on capability to obtain White House information in a fraction of the time it once took.

As we continue to forge ahead on the information super-highway, the need for increasingly stronger security measures is inherent. To meet this need, the Office of Administration installed an Internet firewall. As utilization has increased and improved security measures have become available, the EOP Internet firewall has been continually enhanced. Ensuring the security of the exchange of information on the Internet has been, and will continue to be, a priority. All these technological advances have led to improved communications with both the American public and other government agencies.

Although we have made formidable gains through the creative use of technology, the stagnant or reduced budget levels in fiscal year 1996 have made it increasingly difficult to strengthen and upgrade our infrastructure to keep pace with the growing technology needs. The demands of increasing public interest, and interaction with, the White House "on-line" has led to the diversion of other resources to meet these needs. Nevertheless, we remain committed to providing the President with a modern and efficient infrastructure to support his role as chief executive and commander-in-chief.

In addition to the gains we have made improving public communication with, and access to, White House and EOP information, the EOP has accomplished numerous other technological initiatives in fiscal year 1995 and fiscal year 1996 to date.

In keeping with the Vice President's leading role in the exploration of advances in computer technology, the Vice President's Office has invested significant resources to upgrade its information systems and expand its communication networks. The Vice President's network now includes his offices and his residence.

The Vice President's Residence has significantly upgraded and enhanced its data processing capability, and is enjoying cost saving benefits of processing the vast majority of invitations and other correspondence on the premises. This system also enables the residence staff to keep statistics on events and volunteers, and allows for speedier and more accurate security clearances of guests.

On the non-technological front, the Office of Administration focused on improving customer service to all EOP agencies in fiscal year 1995. Through the use of customer surveys and focus groups OA assessed agency needs and implemented cost saving service improvements. Employee roles, responsibilities, and work processes were re-engineered to improve customer service and operational efficiency. In November 1995, OA began monitoring and reporting performance benchmarks. This monthly process has proved an important tool for continuing to assess and improve our services to the EOP community.

If the Committee approves our request, the proposed fiscal year 1997 funding level would allow OA to continue to improve electronic communication among the EOP agencies, other government agencies, and the American public. This will involve the deployment of integrated, office automation applications that keep pace with technology and serve customer needs; conversion of applications from a mainframe system to a modern server-based operating system; improved services on the Internet, including improved security features; and implementation of software to strengthen tracking services and inventories.

These are difficult fiscal times for all government agencies. The EOP will maximize its resources as well as continue to search for additional cost saving measures. It is imperative, however, that the EOP receive adequate resources to provide high quality support to maintain and upgrade a sound infrastructure to meet the needs of the Presidency.

I appreciate the opportunity to appear before you today in support of these nine Executive Office of the President budgets. This concludes my remarks, and I will be happy to answer any questions.

Biographical Sketches

FRANKLIN S. REEDER

Franklin Reeder has held positions in several Executive agencies and the Legislative Branch of the U.S. Federal government during a career in public service that spans more than 34 years.

Mr. Reeder was appointed to his current position, Director of the Office of Administration, Executive Office of the President, in June of 1995. The Office of Administration supports the staff of the Executive Office of the President by providing information, computer, telecommunications, finance and accounting, human resources, facilities, and general office services.

Mr. Reeder spent the majority of his career in the Office of Management and Budget, Executive Office of the President, joining the then Bureau of the Budget in 1970. He has served as Deputy Assistant Director and Assistant Director for General Management, and Deputy Associate Director for Veterans Affairs and Personnel. Mr. Reeder served as the U.S. Delegate to and chaired the Public Management Committee of the Organization for Economic Cooperation and Development (OECD) from 1993 to 1995.

Earlier, Mr. Reeder headed OMB's information policy staff, which is responsible for federal policies governing the acquisition and use of information and information technology, including information system planning, computer security, privacy and information dissemination. As an analyst on that staff, he was responsible for information policy including development of the Privacy Act of 1974 and government-wide guidelines on its implementation.

From 1977–1980, Mr. Reeder was Deputy Director of House Information Systems, the computer support arm of the U.S. House of Representatives. From 1961–70, Mr. Reeder held various positions with the Treasury and Defense Departments and was a Treasury Fiscal Service Intern.

Mr. Reeder holds a B.A. in International Relations from the University of Pennsylvania and has done graduate work in Political Science at The George Washington University (GW). He was a member of the National Advisory Board of the Center for Informatics Law of John Marshall Law School in Chicago and has served on the adjunct faculties at the University of Maryland and GW.

A member of the career Senior Executive Service from 1984 to 1995, Mr. Reeder received a presidential rank award as a meritorious executive in 1994. In 1990 Mr. Reeder was inducted into the Government Computer News Hall of Fame and was recognized by the National Kidney Foundation as one of the recipients of its Volunteer Service Award. He has served on the board of directors and executive committee of the National Kidney Foundation of the National Capital Area and for five years co-chaired the D.C. Chili Championship, the largest chili cook-off east of the Mississippi.

He is married to the former Anna Marie Seroski. They have three children and two grandchildren. Mr. and Mrs. Reeder are long time residents of Arlington, Virginia.

JÜRG E. HOCHULI

Jürg Hochuli is the Associate Director of the Financial Management Division (FMD), Office of Administration, Executive Office of the President. Mr. Hochuli, a graduate of the University of Maryland, began his career with FMD as an accountant in 1983 and became the Accounting Officer in 1989. Mr. Hochuli was appointed Acting FMD Associate Director in July 1993 and named Associate Director in October. He has been a member of the Association of Government Accountants since 1986 and is a Certified Government Financial Manager.

On June 8, 1996, Mr. Hochuli will be marrying Sarah Robson Grier from Bronxville, NY.

FISCAL YEAR 1997 REQUESTS EQUAL TO FISCAL YEAR ENACTED

Senator SHELBY. Mr. Hochuli.

Mr. HOCHULI. I have no opening statement to make.

Senator SHELBY. Mr. Reeder, in your statement you indicate that your overall funding request for the nine accounts in the Executive Office of the President total $85 million, which is, for all intents

and purposes, the same level of funding of the last 2 years, is that correct?

Mr. REEDER. Yes, sir; it is the same level as was requested in 1996 and enacted in 1995.

Senator SHELBY. Have the personnel levels remained constant in the accounts over that time, basically?

Mr. REEDER. Yes, they have.

Senator SHELBY. Have there been any adjustments, or very few adjustments, if any?

Mr. REEDER. The adjustments have been minimal. The FTE levels, that is, those individuals who are on the payrolls in each account, have been the same in each instance. The number of what we refer to as other Government employees may fluctuate. In fact, they have remained relatively constant over that period.

EOP STAFF REDUCED BY 25 PERCENT

Senator SHELBY. When President Clinton took office some 3 years ago he made a big media splash by proposing to reduce the Executive Office of the President by 25 percent below the staffing level President Bush had maintained during his Presidency. Most of that reduction, as we know, was made in the Office of the National Drug Control Policy programs, which the President has recently asked the Congress to restore. Are you familiar with that?

Mr. REEDER. Yes, sir.

Senator SHELBY. The subcommittee will discuss that proposal with General McCaffrey next month; however, I would like to look at the other accounts in EOP. What has been the reduction in personnel in the nine accounts?

Mr. REEDER. In terms of full-time equivalent employment, the requests for 1997 are the same as those for 1996; therefore, the adjustments would have to come from other Government employees. But you are correct, Senator Shelby, the President committed to reducing the number of staff from November 1992 by 25 percent, and did so by the end of fiscal year 1993.

Senator SHELBY. But they really had not been reduced, because he brought them in from somewhere else, has he not?

Mr. REEDER. No, sir.

Senator SHELBY. What is the truth of it?

Mr. REEDER. We used precisely the same measures for staff as previous administrations had, including President Bush. We include not only paid staff in the White House, but also what we refer to as other Government employees; that is, individuals who are detailed to the White House and other EOP agencies, or military personnel who are assigned there, so that we could get a true count. There has always been skepticism about how many people work at the White House, and we thought that that measure which had been used by the previous administration as well was a more accurate measure.

Senator SHELBY. Would an accurate measure of who is really working in the White House, in one sense of the word, I am not saying all, be coming out of the White House budget? I mean, that is one to measure it. If it is coming out of the White House budget, then that is one way to measure it. If they are loaned or detailed from some Department of Commerce over there, Department of

Justice over there, Department of Defense, it is a different game, is it not?

Mr. REEDER. Well, actually there is a further subtle distinction, Senator, and that is that some of the individuals who are loaned are, in fact, paid for out of the White House budget. By law, an individual, for example, who works at the White House for more than 180 days, even if he or she is on the payroll of another agency, has to be paid for by the White House. That is a provision of appropriations law that applies specifically to the White House.

Senator SHELBY. Do you know, or have you gotten any indication from the President or the Chief of Staff of the White House that you are planning to make more cuts down there in personnel?

Mr. REEDER. No, sir; and we certainly hope not, given that we are stretched very thin at the moment. The commitment is to remain in the aggregate at a level 25 percent below——

EOP STAFFING LEVELS

Senator SHELBY. How many people actually do you have working for the White House off the White House budget, roughly?

Mr. REEDER. It is important to make a distinction here, just so that I am clear. When we refer to the White House, often the term is used in two senses. The White House Office per se, the account and the budget called the White House, funds 400——

Senator SHELBY. I am talking about the Executive Office of the White House, of the Presidency.

Mr. REEDER. There are two other numbers. In fact, let me make sure that I am being precise. The White House Office itself funds 400 full-time equivalent employees.

Senator SHELBY. 400 full-time equivalent employees. OK. How many more are detailed there?

Mr. REEDER. In the White House Office itself, there are an additional 30 other Government employees, people who are detailed or assigned. And you asked the larger question: How many employees are there in the Executive Office of the President? That includes not only accounts about which I will be testifying, but also other accounts, including two large entities, the U.S. Trade Representative and the Office of Management and Budget. The aggregate is 1,630 full-time equivalent employees.

For the purpose of the 25-percent reduction, the President made it very clear that he was not counting USTR or OMB in that count. They are taking reductions as part of the Government Work Force Restructuring Act of 1994.

The number of full-time equivalent employees in all the agencies except for those two large ones is 932.

Senator SHELBY. Are these numbers about right: OMB has about 560 full-time equivalents, and USTR about 200?

Mr. REEDER. Your number may very well be correct, Senator. The number I have for OMB is slightly lower.

Senator SHELBY. Could you furnish that for the record?

Mr. REEDER. I would be happy to, Senator.

[The information follows:]

FULL-TIME EQUIVALENTS FOR OMB AND USTR

The authorized number of full-time equivalents included in the fiscal year 1997 Congressional Budget requests is as follows:

	Fiscal year—	
	1996	1997
Office of Management and Budget	522	518
U.S. Trade Representative	166	164

PAY INCREASES WITHIN THE EOP

Senator SHELBY. Let me ask you this, sir: The budget request indicates that the offices in the Executive Office will absorb the proposed 3-percent pay increase the President proposes. The question is, Will all employees of the Executive Office be eligible for a pay increase?

Mr. REEDER. No, Mr. Chairman, they will not. In the White House we make a distinction regarding political staff, whose pay is administratively determined, which is at the discretion of the President. They do not routinely receive pay increases. Their pay is only adjusted.

Senator SHELBY. You say routinely, but will they or will they not be excluded?

Mr. REEDER. They are, as a rule, excluded, unless they literally take on new responsibilities. There is one exception to that, again to be complete in my response. Of the 400 employees in the White House Office, all of whom are by law administratively determined, approximately 70 are treated as if they were Civil Service employees. Those are the telephone operators, staff who work in records management, and the like, who work there from administration to administration, and they will receive, as they did last January, the same comparability pay increase that all Federal employees in the Civil Service will.

UNFILLED POSITIONS

Senator SHELBY. Will any of the positions there be left unfilled?

Mr. REEDER. It is certainly not our intent to leave positions unfilled. There is always turnover in the White House. As a consequence, there are invariably always positions unfilled. But none are deliberately left so.

Senator SHELBY. You know, this is an election year. I assume that some of the employees in the White House Office will be involved in the President's reelection campaign, and, therefore, be moved to the campaign payroll. Is this being counted on to help keep payroll costs down?

Mr. REEDER. No, sir; we fully expect as individuals choose to go to the campaign that their positions will be filled by others.

Senator SHELBY. Have there been some to already leave the staff and go to the campaign?

Mr. REEDER. I can only respond anecdotally. I have no count, but my impression is folks have not left in large numbers.

Senator SHELBY. Would you furnish that for the record?

Mr. REEDER. I would be happy to.

[The information follows:]

STAFFERS MOVING TO REELECTION CAMPAIGN

Employees are not required to provide information related to their future employment. However, a review of our records, for the period January 1 to May 11, 1996, discloses that seven employees indicated they were leaving the White House Office to join the reelection campaign.

WHITE HOUSE OFFICE EQUIPMENT

Senator SHELBY. As far as equipment purchases for the White House, the budget requests a significant increase for equipment and supplies for the White House Office. Could you indicate what types of equipment and supplies we are talking about, and will these pieces of equipment supplement or replace current equipment? And is this technology purchased to give the White House the state-of-the art purposes or to solve problems caused by old systems?

Mr. REEDER. Senator, while there is an increase, and I am trying to get the precise number, in our request from 1997 over 1996, in fact that is a small increase compared to the historic level of equipment purchases in the White House. We took a substantial reduction in equipment purchases in 1996 to accommodate the enacted level of our appropriation, which was slightly below the level we had requested. The level of equipment purchases that we anticipate would, as you suggest, allow us to remain steady-state. As you well know from operating this institution, it requires small investments each year simply to shop out machines that are wearing out and to keep current. There are no major investments in technology financed at these funding levels.

REMARKS BY SENATOR MIKULSKI

Senator SHELBY. Senator Mikulski, we appreciate you joining us. I recognize you for any statement or questions you want to ask.

Senator MIKULSKI. Mr. Chairman, I know that this is a really full day, and Senator Dole will be making his announcement shortly. I am going to skip the questions I have for the Executive Office of the President, and look forward to working with you to move their appropriations request forward, and any questions I have for that office I will submit for the record. Thank you very much.

SUBMITTED QUESTIONS

Senator SHELBY. Thank you, Senator. I also have a number of questions for the record, Mr. Reeder, which might be treated better that way in more detail, and I will submit the rest of my questions for the record to you and let you furnish it to the committee. Would that be OK?

Mr. REEDER. I would be happy to do so, Mr. Chairman.

Senator SHELBY. I will conclude your part of the hearing. We appreciate your coming, and apologize again for you having to wait on us. But this is an unusual day up here.

Mr. REEDER. I understand. There are larger things going on. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

Detailees

Every President in recent memory has utilized detailees in the day-to-day operations of the White House. This administration is no different. This subcommittee has tracked the number of detailees for the past three administrations in an effort to get a handle on this nature of support provided the Executive Office.

1. **Question.** How many detailees are now assigned to the White House? Could you provide a breakout by appropriations account, and how long they have been assigned to the Executive Office?

2. **Question.** How many of those have been in the EOP for more than 180 days?

3. **Question.** Are the parent agencies of these employees being reimbursed?

Answer. As of May 11, 1996, there are 149 Other Government Employees (OGEs), including detailees, assigned to those accounts presented by the Office of Administration. A list by EOP office is as follows: White House Office (31), Office of Administration (1), Office of the Vice President (4), Council of Economic Advisers (4), Office of Policy Development (6), and the National Security Council (103). Under the terms of 3 U.S.C. §112, the WHO, OA, OVP and OPD reimburse for detailees 180 days after the start of the detail in a fiscal year, and are reimbursing for any such detailees. The NSC and CEA are not covered by that provision and reimburse as required by authorizing statutes and Comptroller General decisions.

Equipment Purchases for the White House Office

The budget requests a significant increase for equipment and supplies for the White House Office.

4. **Question.** Could you indicate what types of equipment and supplies are we talking about?

5. **Question.** Will these pieces of equipment supplement or replace current equipment?

6. **Question.** Is this a technology purchase to get the White House to state-of-the-art purposes, or to solve problems caused by antiquated systems?

Answer. This increase would not fund a major purchase or expansion of equipment and supplies. Rather , it will allow the White House Office to maintain the current infrastructure, repair or replace aging equipment, and make small investments in technology. Specifically, the $720,000 requested will be used as follows:

Software purchases . . .	$120,000
Hardware purchases	300,000
Copier/fax replacement . .	150,000
Furniture	150,000
TOTAL	$720,000

While the level requested for FY 1997 is an increase over FY 1996, this amount is lower than historic levels. Denial of these funds in FY 1997 will force the White House Office to further delay the repair and replacement of equipment, allow infrastructure to deteriorate, and continue a dangerous "bare bones" maintenance program. In the long term, this could result in even greater costs, as replacements are pushed into outyears and current working equipment is overworked and falls into disrepair.

Rent Readjustment

The budget requests that rent payments in different accounts are being adjusted to reflect usage by the appropriate office. I can understand that the costs for the Office of Administration are going down, because of the changes you have made, but I don't understand the increases being requested by the Office of Policy Development and the National Security Council. Neither has increased in size, yet they are requesting sizable increases in rent funding.

7. **Question.** Could you explain what has happened to cause this increase?

Answer. Neither the Office of Policy Development nor the National Security Council increased the amount of space used directly by agency personnel. In FY 1996, a space survey was conducted of EOP buildings and a corresponding re-computation was undertaken. As a result, OPD and NSC FY 1996 bills from GSA for joint use space increased, requiring a corresponding adjustment in the FY 1997 budget. The National Security Council increase is also the result of underestimated rental rates used to create the FY 1996 budget estimates.

Unanticipated Needs

The Congress provides the President with funds for unanticipated needs.

8. **Question.** Have any funds from this account been used this fiscal year?

9. **Question.** Could you provide the committee with a breakout of these expenditures?

Answer. No expenditures were made from this account in fiscal year 1995 or 1996. The last transfer from this account ($250,000) was made in fiscal year 1994 for the J.F.K. Assassination Records Review Board.

Armstrong Resolution Account

The Congress provided funding to resolve issues surrounding the *Armstrong* case. The committee receives an annual accounting of the expenditures from this account. I would, however, like to take a few minutes to review the current situation for the record.

10. **Question.** How much has been expended from this account?

Answer. As of May 17, 1996, $3,291,918 has been obligated and expended from this account.

11. **Question.** Generally, what have these funds been expended for?

Answer. The Armstrong Resolution Account resources are used to convert existing electronic communications (residing on backup tapes) into a proper and acceptable electronic format for transfer to archives as historical records, and to make them accessible to agencies and the public. The funds are also used to create electronic recordkeeping systems for managing day-to-day electronic communications. In addition, the Office of Administration is funding restoration and reconstruction of electronic mail messages in response to congressional and other official requests from the Armstrong account. A progress report on the Armstrong account was provided to the Subcommittee on April 23, 1996. Please see attached report.

Armstrong Resolution Account

The following is an accounting of the Armstrong Resolution Account funds as of the end of fiscal year 1995:

	Allocation	Obligations & Expenditures	Available Balance
Office of Administration	$7,373,488	$1,219,466	$6,154,022
National Security Council	$5,630,000	$1,038,606	$4,591,394
United States Trade Representative	$121,512	$121,512	$0
Totals	$13,125,000	$2,379,584	$10,745,416

(as of September 30,1995)

The Armstrong Resolution Account was established to provide resources to the Executive Office of the President to convert existing electronic communications (residing on backup tapes) into a proper and acceptable electronic format for transfer as historical records and to make them accessible to agencies and the public. The fund was also established to create electronic systems for managing day-to-day electronic communications. Each of the EOP agencies involved continues to progress in its efforts associated with the *Armstrong* case.

The Office of United States Trade Representative requested the use of additional funds from the Armstrong Resolution Account because the initial allocation of $75,000 had been expended. A $60,000 allocation was approved (of which USTR required $46,512). With the initial amount of $75,000 plus the additional $46,512, expenditures to date for USTR are $121,512. A second request for funds, $127,000, was received after the end of FY 1995 and is pending. These additional funds for USTR are taken pro-rata from the shares allocated to NSC and OA.

The National Security Council has read and restored virtually all NSC backup tapes from the Reagan Administration; transfer to the National Archives is being arranged. Work on Bush Administration backup tapes will follow. This reconstruction work is expected to conclude in FY 1997.

The Office of Administration has begun the recovery of electronic mail messages and some related records from Reagan Administration backup tapes. The reconstruction of Bush and Clinton Administration backup tapes is in the procurement process. OA expects to award a contract shortly to complete the work, which is expected to begin in 1996. Hence, although there is still a large unobligated balance, most or all is expected to be obligated in the current fiscal year. *Ad hoc* restoration and reconstruction of electronic mail messages in response to congressional and other official requests will be paid out of this account. This matter was reported to the Appropriations Subcommittees on January 17, 1996.

Fiscal Year 1993 Supplemental

The following is an accounting of the fiscal year 1993 supplemental of $415,000 provided to the Office of Administration:

	Appropriation	Obligations & Expenditures	Available Balance
Office of Administration	$415,000	$415,000	$0

In the Spring of 1993, the Office of Administration requested a supplemental appropriation, in part to recover the costs, such as the expense of the backup tapes, which were unanticipated and unbudgeted. Congress appropriated $415,000 in no-year funds. The majority of the $415,000 was used to purchase backup tapes and for storage of the back-up tapes. In January 1995, OA expended the $4,878 remainder of the FY 1993 supplemental.

12. **Question.** What are outstanding issues which have to be resolved?

Answer. The legal recordkeeping issues with regard to *Armstrong v. the Executive Office of the President* have largely been resolved. Only the issue of the National Security Council's status as a component of the EOP subject to the Presidential Records Act remains pending before the U.S. Court of Appeals.

13. **Question.** Will the funding provided in the fiscal year 1993 supplemental cover those expenditures?

Answer. The EOP has received two separate appropriations for electronic records management purposes. In the Spring of 1993, the Office of Administration requested a supplemental appropriation, in part to recover the costs, such as the expense of the backup tapes, which were unanticipated and unbudgeted. Congress appropriated $415,000 in no-year funds. The majority of the $415,000 was used to purchase backup tapes and for storage of the back-up tapes. In January 1995, OA expended the $4,878 remainder of the FY 1993 supplemental.

The second appropriation, for $13,125,000 provided in FY 1994, under P.L. 103-211, is expected to be sufficient to complete the tasks we have identified to date. However, the Office of Administration is funding restoration and reconstruction of *ad hoc* electronic mail messages in response to congressional and other official requests from the Armstrong account (this matter was reported to the Subcommittee on January 17, 1996). As of May 17, 1996, $503,635 has been obligated and expended for *ad hoc* requests. These expenditures reduce the level of funding available for the recovery and restoration of e-mail messages and for the creation of records management systems. The Subcommittee has been informed that any unused balances in the Armstrong Resolution Account will be returned to the Treasury.

Council of Economic Advisers

The fiscal year 1996 appropriation reduced the request for the Council of Economic Advisers. The President's fiscal year 1997 request asks for an additional 291 thousand dollars to "restore historical personnel levels". Yet, as I look at the FTE numbers in the request they do not change.

14. **Question.** How many positions were on board in the fiscal year 1995?

Answer. CEA's total staff in 1995 was 35: 27 FTEs, 4 detailees, and 4 staff under the Intergovernmental Personnel Act (IPA).

15. **Question.** How many are currently on board?

Answer. As of May 11, 1996, CEA has 32 on board: 28 FTEs, 2 detailees, and 2 IPAs. There was a real decrease of 3 staff people between 1995 and 1996.

16. **Question.** How has the fiscal 1996 funding level been handled by the CEA?

Answer. Because of CEA's budget reduction in FY 1996, the agency was not able to replace 3 Senior Economists. In prior years, CEA had Senior Economists with expertise in areas such as securities and financial institutions, law and economics, and technology policy. These are policy areas that have enormous economic implications. Without the appropriate historical staff levels, CEA's effectiveness in the policy process and the ability of the CEA Chairman to advise the President on these issues may be limited.

17. **Question.** What would happen if funding were left "flat" for CEA, as is proposed for all of the other accounts in the EOP?

Answer. If CEA funding were left "flat" for fiscal 1997 and CEA also had to absorb the 1997 pay increase, CEA would have to again reduce staff levels. This would seriously impair the ability of CEA to provide advice and analysis to the President on a broad range of economic issues. CEA is responsible for providing advice and analysis to the President on economic issues including performance of the macroeconomy, budget and tax policy, international trade, health care policy, telecommunications reform, competition policy, financial institutions, agriculture and natural resources, trends in the labor market and economic aspects of social security, welfare, technology policy and the environment.

In providing advice and analysis to the President on this broad range of economic issues, CEA produces regular memoranda, briefing papers and reports. CEA monitors critical macroeconomic data and interprets these data for the President and Senior White House Staff in daily memorandum. CEA also prepares the Weekly Economic Briefing for the President, which includes a detailed analysis of current economic developments and more lengthy discussions of a wide range of economic issues or problems. CEA is required by the 1946 Employment Act to prepare an annual Economic Report of the President, which provides an overview and assessment of the state of the U.S. economy and the President's economic agenda. The Economic Report serves as an important compendium of data on the economy and is heavily used by analysts both within and outside government. Finally, CEA is responsible for preparing the monthly Economic Indicators for the Joint Economic Committee of the U.S. Congress.

CEA also plays a central role in the so-called "Troika" economic forecasting process. CEA takes the lead in making the Administration's economic forecast. These projections are then used by the OMB to make expenditure estimates, and by Treasury to make revenue forecasts.

In order for CEA to undertake these responsibilities, CEA has historically had roughly 12 to 15 Senior Economists. CEA currently has 9 Senior Economists. If CEA's budget were left flat, it would have to further reduce staff from the appropriate historical levels. This would seriously impair the ability of CEA to provide advice and analysis to the President on the broad and diverse range of economic issues.

Volunteers

Many administrators have utilized volunteers to handle various duties, such as mail work. This administration chose to do that task with volunteers, as well as, several other tasks.

18. **Question.** How many volunteers is the Executive Office currently utilizing?

Answer. On average we have approximately 200 - 300 per day, usually retirees during the week, usually groups on weekends, including Girl and Boy Scouts, church groups, etc. The Volunteer Office maintains a list of approximately 1,200 - 1,400 volunteers. This level has remained consistent since the Spring of 1994.

19. **Question.** What roles are they performing?

20. **Question.** What is the scope of those functions?

Answer. Volunteers typically assist in opening and sorting mail, answering phones, and data entry - mostly in Correspondence. Volunteers in non-Correspondence offices assist in answering phones, greeting people, preparing materials for mailings, and helping the Visitor's Office and Social Office with events (especially White House Christmas events and the Easter Egg Roll). While volunteers may be placed in policy oriented offices, they generally provide only clerical and administrative functions.

21. **Question.** Are any issued security clearances or passes?

22. **Question.** What is their access to the White House?

Answer. All volunteers are subject to an initial computer name check. Certain volunteers who provide services over an extended period of time may be issued hard passes. These volunteers are subject to the same screening and FBI background investigation, and are granted the same access to buildings on the White House complex, as regular staff with similarly color-coded passes.

QUESTIONS SUBMITTED BY SENATOR KERREY

Detailees

Policy on detailees for the Executive Branch is that individuals may not be detailed for more than 180 days without reimbursement to the original employing agency. The Intelligence agencies are exempt from this requirement.

In addition, section 621 of the Treasury Appropriations Act prohibits Executive Branch agencies from hiring a Schedule C for the purpose of detailing that individual to the White House.

1. **Question.** How many individuals are detailed to the EOP offices? Can you provide a list by office?

2. **Question.** How many are reimbursable vs. non-reimbursable?

3. **Question.** Are any of these individuals on detail for more than 180 days without reimbursement to the employing agency? If so, where are they detailed and what is the reason for the non-reimbursement?

4. **Question.** Do you have knowledge of any Schedule C appointments being hired in Executive branch agencies who have been hired and detailed to the White House within six months of their appointments? If so, please explain.

5. **Question.** Can you provide a listing of detailees by office and identify how many are reimbursable vs. non-reimbursable? Can you also identify the length of the detailing?

Answer. As of May 11, 1996, there are 149 Other Government Employees (OGEs), including detailees, assigned to those accounts presented by the Office of Administration. A list by EOP office is as follows: White House Office (31), Office of Administration (1), Office of the Vice President (4), Council of Economic Advisers (4), Office of Policy Development (6), and the National Security Council (103). Under the terms of 3 U.S.C. §112, the WHO, OA, OVP and OPD reimburse for detailees 180 days after the start of the detail in a fiscal year, and are reimbursing for any such detailees. The NSC and CEA are not covered by that provision and reimburse as required by authorizing statutes and Comptroller General decisions.

None of the individuals detailed to the White House Office as of May 11, 1996, was detailed from the "home" agency within six months of a Schedule C appointment.

<u>White House Office</u>

'97 Budget totals $40.318 million and 400 FTE or $734,000 above the '96 enacted level. The increase is requested to return this account to the level requested but not provided in '96.

While the request for personnel compensation and benefits is proposed to decrease by $139,000, payments for benefits of former personnel are proposed to increase by $200,000.

The object classes containing increases for '97 are: communications, utilities and misc.,+$100,000; other services, +$150,000; supplies and materials, +$162,000; printing and reproduction, +$50,000; and equipment, +$320,000.

Reimbursable obligations, while budgeted at $125,000 in '96, you are now estimating an increase to $363,000 in '96. For '97, they are estimating $125,000.

6. **Question.** The budget justification for the White House Office shows an estimated 1996 level of $363,000 for reimbursable obligations, almost three times as much than was budgeted in your original 1996 justification. What is the reason for this increase and what reimbursements is the White House making?

Answer. The $363,000 in reimbursements reflects two signed agreements for services to be provided to the Executive Residence and the Interagency Women's Council. The $125,000 originally projected in the FY 1996 request included only services provided to the Executive Residence. The additional $238,000 constitutes administrative support provided to the Interagency Women's Council, which is charged with implementing the United States' commitments announced at the Beijing conference and with developing related initiatives to further women's progress.

7. **Question.** While you are proposing an FTE level of 400 for the WHO in '97, the same as '96, why are you contemplating a reduction of $139,000 in personnel compensation?

Answer. The actual reduction in personnel compensation is $109,000, and is the result of a $91,000 increase in full time permanent pay, largely to finance comparability pay increases for White House staff who are treated as General Service equivalents, and a $200,000 decrease in other personnel compensation. This reduction will align the budget with FY 1996 actual costs and is the result of holding down expenses in order to maintain level funding.

8. **Question.** The biggest increase for the White House Office is $320,000 for equipment. Can you explain the reason for this increase and tell us specifically what equipment will be purchased? What will be the impact if these funds are not approved?

Answer. This increase would not fund a major purchase or expansion of equipment and supplies. Rather, it will allow the White House Office to maintain the current infrastructure, repair or replace aging equipment, and make small investments in technology. Specifically, the $720,000 requested will be used as follows:

Software purchases	$120,000
Hardware purchases	300,000
Copier/fax replacement	150,000
Furniture	150,000
TOTAL	$720,000

While the level requested for FY 1997 is an increase over FY 1996, this amount is lower than historic levels. Denial of these funds in FY 1997 will force the White House Office to further delay the repair and replacement of equipment, allow infrastructure to deteriorate, and continue a dangerous "bare bones" maintenance program. In the long term, this could result in even greater costs,

as replacements are pushed into outyears and current working equipment is overworked and falls into disrepair.

9. **Question.** You are proposing an increase of $150,000 for "Other Services". What specifically will these funds be used for and why is the increase needed?

Answer. The increase of $150,000 in "other services" restores funding to the level appropriated in FY 1995 and requested in FY 1996 but not appropriated. It is necessary to support the increase in costs for maintenance of aging equipment no longer under warranty and to repair and maintain furniture belonging to the White House. In addition, these funds pay for service contracts on computer hardware and software, customized software, and translating services. Denial of the requested level would seriously jeopardize the White House's ability to properly maintain equipment and would cause further deterioration of equipment and furniture. If routine maintenance is not completed, the end result will be the need to make future purchases of equipment and furniture.

Office of Administration

'97 requested level is $26.1 million and 192 FTE's, or $364,000 above the '96 enacted level.

Personnel compensation is slated to increase by $238,000 while benefits will decline by $433,000. Rental payments to GSA will decline by $146,000.

The supplies and materials budget is proposed for a $73,000 increase but equipment will decline by $130,000. Other services will increase by $743,000. The increase of $743,000 in other services, is attributed to a new commercial facility contract for the EOP Data Center.

The GSA rent reduction of $146,000 is attributed to a reduction in space occupied by OA. The reduction is attributed to a need to absorb pay raises and other mandatory costs.

10. **Question.** Your budget includes an increase of $743,000 for a new commercial facility contract for the Executive Office Data Center. Can you explain the reason for this new contract?

Question. What are the total costs of this contract?

Question. What will be the impact if this increased funding is not provided?

Answer. The $743,000 increase in Other Services is not for a new commercial facility contract for the Executive Office Data Center. Rather, it is

intended to maintain the existing level of support relating to the EOP Data Center facility contract, as well as maintenance contracts for mini-, mainframe, and personal computers; Internet and communications applications; payments to DFAS for the personnel/payroll system; payments to Treasury for on-line data processing; and employee training activities.

OA has budgeted $4,525,159 for this contract in FY 1997.

OA's FY 1997 budget request is the same level of funding requested for FY 1996 and the same level originally enacted for FY 1995. If this funding is not provided, OA will be forced to scale back such items as personal computer maintenance, Internet communications, and employee training. These areas are not discretionary. While it is increasingly difficult to maintain these types of services with lower budgets, unfunded pay increases and inflation, OA has and will continue to reduce expenditures where possible. This request is a small net increase that does not fully offset inflationary increases for non-pay items, yet allows OA to function with existing resources.

11. **Question.** Can you please explain the GSA rent reduction and tell us what impact, if any, this will have on your operations?

Answer. The $146,000 reduction in GSA rent is the net effect of space for the new Remote Delivery Site and of reducing space for our supply stores in the Old and New Executive Office Buildings. The bulk of the supply stores will be moved off-site to the new RDS; OA expects the impact upon operations to be an increase in efficiencies of the supply stores.

12. **Question.** To what do you attribute the decline in the budget for equipment?

Answer. OA's total budget request for FY 1997 is the same level of funding requested for FY 1996 and the same level originally enacted for FY 1995. OA has made the difficult decision to reduce the equipment budget in order to maintain an existing level of services and to absorb payroll increases and inflation. The unfortunate and invisible side effect of absorbing these increases is the costs deferred to future budget cycles because of delayed purchasing and deferred infrastructure maintenance.

Armstrong Resolution Account

$13.4 million was appropriated in FY '94 to permit EOP to undertake certain record keeping activities in relation to the *Armstrong vs. The Executive Office of the President* case.

Last year OA stated in response to questions that it hoped to issue a contract award for the processing of backup tapes at the end of 1995.

At the end of the 1995, only $1.1 million of the funds appropriated for this activity had been obligated.

13. **Question.** How much of the $13.4 million for the Armstrong activities have been obligated to date? Can you provide detailed accounting?

Answer. As of May 17, 1996, $3,291,918 has been obligated and expended from this account. Each year, as requested by the conference report to the Armstrong appropriation, OA prepares an accounting of these funds. The latest accounting was submitted to the Appropriations Subcommittees on April 23, 1996. Please see attached report.

[CLERK'S NOTE.--A copy of the report on the Armstrong Resolution Account follows the answer to question No. 11 asked by Senator Shelby.]

14. **Question.** Was the contractor award for the restoration and backup of the tapes awarded in 1995? If not, when do you anticipate such an award?

Answer. Recovery and restoration of e-mail messages and related records from the backup tapes has begun. NSC has restored virtually all NSC backup tapes from the Reagan Administration; work on Bush Administration backup tapes will follow. This reconstruction work is expected to conclude in FY 1997. OA has begun the recovery of electronic mail messages and some related records from Reagan Administration backup tapes. The reconstruction of Bush and Clinton Administration backup tapes is in the procurement process. OA expects to award a contract shortly to complete the work, which is expected to begin in 1996.

15. **Question.** Will any other requests for information from EOP impact on the funding for Armstrong activities? In particular, what impact has the Whitewater requests had on this funding?

Answer. The Office of Administration is funding *ad hoc* restoration and reconstruction of electronic mail messages in response to congressional and other official requests from the Armstrong account. This matter was reported to the Subcommittees on January 17, 1996. As of May 17, 1996, $503,635 has been obligated and expended for *ad hoc* requests. These expenditures reduce the level of funding available for the recovery and restoration of e-mail messages and for the creation of records management systems.

16. **Question.** Can you give us a timetable of when you expect to have this work completed and be in compliance with the court rulings?

Answer. Recovery and restoration of e-mail messages and related records from the backup tapes have begun for NSC and OA. The reconstruction of OA's Bush and Clinton Administration backup tapes is in the procurement process. OA expects to award a contract shortly to complete the work, which is

expected to begin in 1996. The number of Bush and Clinton backup tapes is significant. It is a technical effort that has not been done before and requires complete accuracy. Full completion is currently estimated to be just over two years.

Part II of OA's Automated Records Management System (ARMS) portion of the project deals with automating records disposition and integrating a search engine into the recordkeeping system to respond to Freedom of Information Act requests and other inquiries. Work has been completed on a proof of concept for software which performs both functions. However, due to competing demands for technical resources, it was set aside to temporarily address *ad hoc* searches and the procurement for backup tape reconstruction services. Work should begin again on this portion of the project by mid-July. The completion date for ARMS is not known at this time, but could be as much as twelve months to allow time to assess commercial products and integrate them into OA's environment.

Special Assistance to the President (VP's Office)

'97 Budget request of $3.280 million and 21 FTE's, the same as the '96 enacted level.

A proposed increase of $52,000 in travel to $260,000 has been offset by a reduction of $52,000 in "unvouchered" travel expenses. An increase of $70,000 is proposed for equipment, a $30,000 reduction for supplies and materials, and a reduction of $22,000 for communications and misc. expenses.

17. **Question.** Why do you separate travel expenses of the Vice President and his staff from unvouchered travel expenses? What accounts for the decline in unvouchered expenses and an identical increase in travel expenses?

Answer. "Vouchered" travel expenses reflect travel of OVP staff not accompanying the Vice President and Mrs. Gore, and are shown in the travel line item or object class 21.0. "Unvouchered" expenditures represent expenses for the travel of the Vice President and Mrs. Gore, and staff accompanying them. These are shown in the unvouchered line item or object class 91.0, per budget formulation guidance provided in OMB's Circular A-11. These expenditures are not required to be vouchered and are accounted for solely on the Vice President's certificate, pursuant to 3 U.S.C. §106 (b).

The estimates for unvouchered and vouchered travel are adjusted in the budget request each year, based on the actual expenditures in these categories in the preceding years.

Unanticipated Needs

$1 million has been requested in '97, the same level as provided in '96.

18. **Question.** Can you provide a full accounting of how much was spent from this account in '95 and thus far in '96 and for what purposes?

Answer. No expenditures were made from this account in fiscal year 1995 or 1996. The last transfer from this account ($250,000) was made in fiscal year 1994 for the J.F.K. Assassination Records Review Board.

19. **Question.** Is this amount sufficient to cover unanticipated activities of the President?

Answer. This account historically has been used to fund start-up costs for specific councils or projects, (e.g., the J.F.K. Assassination Records Review Board) that arise subsequent to the regular appropriations process for a given fiscal year. Based on the past financial requirements of such groups, this amount is sufficient to cover the short-term unanticipated needs of the President. By their very nature, there is no way to anticipate unanticipated needs. If the funds are not required, as in past years, they will not be used.

Office of Policy Development

'97 budget request of $3.867 million and 31 FTE's , the same as the '96 enacted level.

Total personnel compensation is expected to decline by $72,000 by reducing personal services payments by this amount.

Rental payments to GSA are slated to increase by $45,000.

Reimbursable obligations are expected to be zero, or $318,000 less than in '96.

20. **Question.** What accounts for a projected decline of $72,000 in special personal services payments in '97? Can you provide detail on how these funds are being expended in '96?

Answer. The request for $313,000 will support the anticipated level of reimbursable detailees, consultants, rehired annuitants, and Intergovernmental Personnel Act employees while meeting the challenge of maintaining a flat funding level. In FY 1996, these funds are being used to provide for a shared employee and for reimbursement for detailees.

21. **Question.** How many detailees are assigned to this office, can you provide a listing by agency? How much is spent on reimbursable detailees? Are any of these detailees on loan for more than 180 days without reimbursement to the employing agency? If so, why?

Answer. There are 6 Other Government Employees (OGEs), including detailees, assigned to the Office of Policy Development as of May 11, 1996. A listing by agency is as follows:

Agency	OGEs
Department of Agriculture	1
Department of Education	1
Department of Justice	1
Department of the Treasury	1
Environmental Protection Agency	1
Export-Import Bank	1

In FY 1996, the OPD anticipates obligating approximately $203,000 for reimbursement of detailees and a shared employee.

Under the terms of 3 U.S.C. §112, the OPD reimburses for detailees 180 days after the start of the detail in a fiscal year, and is reimbursing for any such detailees.

22. **Question.** Why are your rental payments to GSA increasing in '97 with no corresponding increase in personnel?

Answer. The Office of Policy Development has not increased space used directly by agency personnel. The increase in GSA rent cost is the result of a space survey and a subsequent re-computation. The level requested for GSA rent in FY 1997 reflects current FY 1996 rent costs.

23. **Question.** What reimbursable obligations do you anticipate in '96 and why are none anticipated in '97?

Answer. The Office of Policy Development has provided administrative support for specific initiatives which require evaluation at the Presidential policy level, a practice consistent with previous administrations. In FY 1996, the Office of Policy Development is supporting two reimbursable programs: Global Learning and Observations to Benefit the Environment (GLOBE) Program and Office of National AIDS Policy.

The GLOBE Program is an interdepartmental effort funded by the National Oceanographic and Atmosphere Administration to enhance the collective awareness and responsibility of individuals throughout the world concerning the environment and the impact of human activities on it.

The Office of National AIDS Policy is funded by the Department of Housing and Urban Development in FY 1996. It provides advice to the President regarding HIV/AIDS policy issues, convenes the Interdepartmental Task Force on AIDS, and is the mechanism through which Federal policies and programs related to HIV and AIDS are coordinated.

Historically, a reimbursable program is only anticipated if there is a consistent funding history or an agreement of support for the budget year from which an accurate estimate can be developed. Since interagency agreements for the AIDS

and GLOBE programs or other activities have not yet been signed for FY 1997, and there is no consistent funding history for these activities, we have no basis for providing an estimate for FY 1997. However, we expect that the Office of Policy Development will continue to provide reimbursable administrative support to these and other programs as specific policy initiatives arise. We would note that these funds will be used solely to offset expenses incurred by the Office of Policy Development in direct support of these activities, and do not represent an addition to Office of Policy Development resources.

National Security Council

'97 budget of $6.648 million and 60 FTE or the same as the '96 enacted level.

Personnel compensation is expected to decline by $65,000 with a reduction of $35,000 in other than full-time personnel and a reduction of $87,000 in special personal services payments.

Travel is slated for a $25,000 increase to $375,000.

24. **Question.** Your budget justification states that an increase in the travel budget is needed to cover the demands of the President's Intelligence Oversight and Foreign Intelligence Advisory Boards. How much is the travel budget for each of these boards currently, what is the expectation for '97, and why are the increases required? Is this the sole reason for the travel increase overall? If not, please explain?

Answer. The President's Intelligence Oversight Board (IOB) in 1993 was merged with and made a standing committee of the President's Foreign Intelligence Advisory Board (PFIAB). (The IOB has a membership of four; the PFIAB has sixteen members.) Thus, all IOB expenses are covered by the PFIAB budget, including travel; there is no separate travel account for the two respective boards. The PFIAB/IOB travel budget for FY 1996 is $65,000, which covers all travel expenses associated with members' attendance at regular PFIAB meetings, regular IOB meetings, special PFIAB task force meetings and ad hoc IOB meetings. The travel budget also covers all business travel conducted by the members and staff of both the PFIAB and the IOB (and their associated task forces).

We have requested an increase of $25,000 in the FY 1997 PFIAB travel budget because of increasing demands for IOB and PFIAB members and staff to travel. The several critical projects under way at any given time often require members who live elsewhere to be in Washington for crucial meetings. A heightened level of effort also is requiring additional business trips inside the continental United States and, occasionally, abroad. The current budget of $65,000 would not allow us to meet all of PFIAB/IOB travel requirements and would adversely affect the organization's ability to fulfill its advisory responsibilities to the President. The $25,000 increase for FY 1997 will fund IOB and PFIAB members' participation in meetings and briefings they need to attend to properly fulfill their responsibilities as active Board members.

25. **Question.** How many detailees are assigned to the NSC? How many are reimbursable and at what cost? Can you please provide this same information with respect to '97 and list by employing agency?

Answer. As of May 11, 1996, the NSC has 103 Other Government Employees (OGEs), including detailees. Following is a listing by employing agency:

Agency	OGEs
Agency for International Development	1
Central Intelligence Agency	16
Department of Commerce	1
Department of Defense	46
Department of Energy	1
Department of State	29
Department of the Treasury	1
Federal Bureau of Investigation	1
National Archives and Records Administration	2
National Security Agency	3
U.S. Coast Guard	2

As of May 11, 1996, the NSC (including PFIAB) has obligated $843,743 for reimbursable OGEs. This will cover 7 full year individuals. In addition, NSC anticipates obligating approximately $115,000 for 4 partial year individuals. The Department of State is the only agency for which the law requires reimbursement for detailee services.

The mix of NSC staff changes from year to year. It is thus difficult to project exactly what the needs of the National Security Advisor will be and from which agencies detailees will come. This request provides the NSC needed flexibility to hire payroll individuals and to maintain some reimbursable detailees as required.

26. **Question.** Why will personal services payments decline in '97?

Answer. NSC was forced to decrease personal services payments to accommodate other needs. There will undoubtedly be a turnover in some staff at the end of this calendar year. NSC hopes to maintain flexibility to hire payroll staff and/or keep some reimbursable detailees.

27. **Question.** Why will other than full-time employees decline in '97?

Answer. Other than full-time employees covers the following items: part-time salaries, consultants, cash awards and terminal leave/lump sum payments. NSC has no need in the foreseeable future for part-time employees. NSC intends to hold costs down in this area in order to meet the overall budget level.

Council of Economic Advisers

'97 budget of $3.439 and 35 FTE's or $259,000 above the '96 enacted level.

The bulk of the increase is for personnel compensation, +$239,000.

28. **Question.** Can you tell us the impact of the '96 budget reduction, where it was taken, and what impact, if any, the reduction had on your activities?

Answer. Because of the FY 1996 budget reduction, CEA had 3 fewer Senior Economists in FY 1996, which limited CEA's ability to participate in certain important policy debates that have significant economic implications. For instance, in FY 1996 CEA did not have Senior Economists to cover issues related to securities markets and financial institutions, law and economics and technology policy. Without staff in these areas, CEA's effectiveness in the policy process and the ability of the CEA Chairman to advise the President on these issues is limited.

29. **Question.** Why do you believe the work of the National Economic Council is not duplicating the work or need for the CEA?

Answer. The National Economic Council (NEC) is comprised of the principal economic departments and agencies in the executive branch, including the Treasury Department, the Labor Department, the Commerce Department, the Office of the United States Trade Representative, OMB and CEA. The NEC staff is charged with coordinating economic policymaking within the executive branch. NEC's mission is to serve as an "honest broker" by bringing the relevant economic players to the policy table, attempting to reach consensus, and then, when necessary, drafting a decision memorandum for the President.

In contrast, CEA does not strive to balance competing economic and political interests; instead, its mission is to analyze the economic soundness and efficacy of the various economic policy proposals that are developed within the executive branch. While the CEA staff are responsible for objective analysis of the economic impact and long-term effects of policy decisions, NEC weighs various agency views and takes into account other considerations, such as the potential for Congress to adopt proposed policy initiatives.

The organization and traditions of CEA and NEC further reflect the different missions of these offices. CEA, with its premium on rigorous economic analysis, is comprised of highly regarded professional economists who come to CEA for a limited term. NEC, with its need to evaluate not only economic, but also political and other factors, is composed of experienced and accomplished general policy experts.

Over the past two decades, Administrations of both parties have found it essential to have both capabilities.

CEA hires new professional staff each year in order to keep its economic analysis fresh and on the cutting edge. Yearly turnover at CEA prevents the hardening of vested policy interests that could potentially distort the objectivity of economic analysis. NEC, on the other hand, has a more traditional hiring policy. This reflects NEC's need to build personal relationships from year to year to ensure continuity of process and orderly development of policy. Yearly turnover at NEC would be highly disruptive to the policymaking process and would undercut NEC's basic mission.

For a more detailed discussion of CEA and its role in advising the President, attached is the "Report on National Economic Formulation" as requested by the 1996 Treasury, Postal Appropriations Conference Report.

Report on "National Economic Policy Formulation"
as Requested by the
1996 Treasury, Postal Appropriations Conference Report

In accordance with the 1996 Treasury, Postal Appropriations Conference Report, the Council of Economic Advisers' submits with its Fiscal Year 1997 budget request a report that describes the current structure for providing economic advice to the President and assesses the viability of alternative organizational structures.

THE CURRENT ORGANIZATIONAL STRUCTURE

The Role of the CEA. For 50 years, both Democratic and Republican Presidents have turned to the Council of Economic Advisers (CEA) for objective, professional economic advice and analysis. The CEA was established by the Employment Act of 1946 to provide the President with "timely and authoritative information concerning economic developments and economic trends ... to analyze and interpret such information ... and to compile and submit to the President studies relating to such developments and trends."

To this end, the CEA monitors on a daily basis critical macroeconomic data and interprets these data for the President and Senior White House staff in daily memoranda. Every President -- Democrat or Republican -- needs to have the most up-to-the-minute information and analysis on the state of the $7 trillion U.S. economy, in order to anticipate and understand how specific data and policy announcements will affect financial markets and the overall macroeconomy.

The CEA also continues to prepare the Weekly Economic Briefing for the President. The briefing includes a more detailed analysis of current economic developments, more extended treatments of a wide range of economic issues and problems, and summaries of economic news on different regions and sectors of the economy. The CEA is required by the 1946 Employment Act to prepare an annual Economic Report of the President, which provides an overview and assessment of the state of the U.S. economy and the President's economic agenda. The Economic Report of the President serves as an important compendium of data on the economy and is heavily used by analysts both within and outside the government. Finally, the CEA is responsible for preparing the monthly *Economic Indicators* for the Joint Economic Committee of the U.S. Congress.

The CEA plays a central role in the so-called "Troika" economic forecasting process. For 30 years, Administrations have relied on an interagency process involving the CEA, Office of Management and Budget (OMB), and the Treasury Department (the "Troika") to provide the Administration's budget forecasts. The CEA takes the lead in making the Administration's economic forecast, which includes projections of Gross Domestic Product (GDP) growth, unemployment, inflation and interest rates. These projections are then used by the OMB to make expenditure estimates, and by Treasury to make revenue forecasts. This cooperative effort combines the distinctive expertise of each of the relevant agencies and provides a check-and-balance system that Administrations of both parties have found to be effective.

In addition, the CEA assists in the formulation, analysis and critique of new policy proposals, and reviews the structure and effectiveness of existing programs. Both directly and through the interagency process, the CEA works with various agencies to examine the economic impact of a range of domestic and international policy proposals, including tax, environmental, agriculture, education, welfare, trade, and labor issues.

In examining these policy proposals, the CEA's perspective is unique: in both Democratic and Republican Administrations, the CEA advocates policies that facilitate the workings of the market and that emphasize the importance of market incentives, efficiency, and economic growth. Moreover, the CEA focuses on evaluating the long-term effects of policy proposals and decisions. This perspective has been essential to weeding out in the early stages proposals that are ill-advised or unworkable, proposals that cannot be supported by the actual economic data, and proposals that could have damaging consequences to the economy.

The CEA does not represent any particular constituency or industry interest group. This allows the CEA to represent more directly and clearly the general economic interests of the American people. Other departments and agencies, quite often with full merit, bring the interests of their constituencies to the economic policy table. In contrast, it is the CEA's role to argue for policies that are in the overall national economic interest.

CEA staff generally serve the CEA for a one-year term. The staff are drawn largely from the faculty of leading American universities and are hired without regard to party affiliation. Because the CEA's influence and authority comes primarily from the cogency of its arguments, the sole criterion for employment is a reputation for rigorous and innovative economic analysis. The CEA staff serve to connect the executive branch to the entire community of scholars and professional economists, and ensure that the President is presented with the best, most up-to-date information and analysis.

Other Agencies Perform Different Roles. The mission, organization, and tradition of the CEA are fundamentally different from those of the other economic agencies within the Executive Office of the President, such as the National Economic Council ("NEC") or OMB.

The NEC. The NEC is comprised of the principal economic departments and agencies in the executive branch, including the Treasury Department, the Labor Department, the Commerce Department, the Office of the United States Trade Representative, the OMB and the CEA. The NEC staff is charged with coordinating economic policymaking within the executive branch. The NEC's mission is to serve as an "honest broker" by bringing the relevant economic players to the policy table,

attempting to reach consensus, and then, when necessary, drafting a decision memorandum for the President.

In contrast, the CEA does not strive to balance competing economic and political interests; instead, its mission is to analyze the economic soundness and efficacy of the various economic policy proposals that are developed within the executive branch. While the CEA staff are responsible for objective analysis of the economic impact and long-term effects of policy decisions, the NEC weighs various agency views and takes into account other considerations, such as the political feasibility of policy initiatives.

The organization and traditions of the CEA and the NEC further reflect the different missions of these offices. The CEA, with its premium on rigorous economic analysis, is comprised of highly regarded professional economists. The NEC, with its need to evaluate not only economic, but also political and other factors, is composed of experienced and accomplished general policy experts.

As noted above, the CEA hires new professional staff each year in order to keep its economic analysis fresh and on the cutting edge. Yearly turnover at the CEA prevents the hardening of vested policy interests that could potentially distort the objectivity of economic analysis. The NEC, on the other hand, has adopted a more traditional hiring policy. This reflects the NEC's need to build personal relationships from year to year to ensure continuity of process and orderly development of policy. Frequent turnover at the NEC would be highly disruptive to the policymaking process and would undercut the NEC's basic mission.

Recent Administrations have made use of coordinating Councils analogous to the NEC. For instance, in the Bush Administration, the Economic Policy Council played a role similar to the NEC. The Economic Policy Council was chaired by the Secretary of the Treasury, and had a support staff within the Executive Office of the President. Having a Secretary of a particular agency Chair the coordinating council can be problematic, however, because it impairs the ability of the coordinating agency to address issues which lie within the purview of that agency or which involve disputes between that agency and other agencies.

The OMB. The CEA's role within the Executive Office of the President is also different from the OMB. The OMB's responsibility is to formulate the President's annual budget policy and manage the budget process. OMB staff analyze particular budget proposals and evaluate the costs and benefits of specific programs. In contrast, the CEA monitors the state of our macroeconomy, analyzes macroeconomic trends, and provides the President with economic advice and analysis on a broader range of domestic and international economic issues.

The Office of Economic Policy (EP) in OMB is small – only about one-fourth the size of the CEA. The EP staff (other than the Associate Director for Economic Policy) are career employees, which allows the accumulation of institutional knowledge and experience within the Executive Office of the President, and the executive branch generally.

Each EP staff member develops expertise in the workings of specific parts of the Federal Government, so that together, the staff can provide policy formulation assistance and backup capacity to the programmatic branches of OMB as a whole. The EP staff share lead responsibility for the analysis of certain generic Federal operations for OMB as a whole – for example, the operations of Federal credit programs; cost-

benefit analysis for Federal capital acquisition, and for regulatory programs; liaison with the Treasury Department on the budgetary aspects of taxation; the economics of Federal pensions; and Federal accounting, including the Federal "balance sheet" and information reporting standards. The EP staff must work as a team on major policy formulation efforts within OMB and the Executive Office of the President as a whole. Through EP, OMB also provides its perspective and the budgetary input to the "Troika" economic forecasting process. Finally, EP provides ongoing policy advice and economic forecasting information to the OMB Director.

The responsibilities of EP could not be adequately performed by a staff of short-term appointees. On the other hand, EP could not provide the same kind of economic analytical support to the President as the CEA, because of its day-to-day responsibilities. Moreover, EP needs career staff with institutional understanding of the complex budget process and could not maintain the same continual freshening of staff and ideas as does the CEA.

ALTERNATIVE ORGANIZATIONAL STRUCTURES

The CEA, in response to the request of the conferees, has carefully considered alternative plans for structuring a full-time volunteer CEA using, for instance, academicians, fellows, and other individuals to provide independent economic advice to the President. The CEA has reviewed practices of other major industrialized countries and consulted with past members and Chairs of the CEA.

On the basis of this review, the CEA has concluded that relying on a full-time volunteer Council of Economic Advisers would almost surely adversely affect the breadth and quality of economic advice provided to the President. It would also impair the ability of the Executive Office of the President to design and implement creative and effective policies addressing the economic challenges of our Nation. In this section of the report, the CEA discusses (a) the extent to which the CEA already draws upon a large reservoir of volunteer economic advice; (b) why it is important that the President have access to full-time advisers; and, (c) why relying on full-time volunteers is not a viable option.

(a) The CEA already seeks volunteer advice from outside experts. The CEA, in both Democratic and Republican Administrations, has drawn upon the wealth of expertise in the business, academic, and government economics communities in providing advice to the President. The CEA does this in a variety of formal and informal settings. The CEA has an Advisory Board consisting of distinguished economists, largely drawn from the academic and policy communities. In addition, the CEA meets with, and is in constant consultation with, Wall Street and business economists. One of the strengths of the CEA, both in this Administration and historically, is its close connection with scholars with a range of political views from academic institutions and think-tanks, which facilitates the flow of ideas into the executive branch's decisionmaking process.

Over the past 3 years, Members of the CEA have consulted with almost every Nobel Prize winning economist in the United States, as well as with a large number of past Members of the CEA of both parties. On a number of occasions, the CEA has gathered prominent economists and business leaders for roundtable discussions on important economic issues.

(b) The President needs access to full-time economic advisers. The effectiveness of the CEA would be seriously impaired if it were not full time. There

are several reasons for this. First, the CEA provides to the President, on a daily basis, information and data on the state of the economy.

Second, the economic advisers of the President must be in constant contact with the President and other members of the Administration to understand the issues which are of concern to them, and to know how best to design economic policies to address those concerns. Finally, the development of economic ideas and their conversion into policy requires "working" the ideas through the policymaking process--a task which can only be undertaken on a full-time basis. It does little good simply to put forward a brilliant idea. For these ideas to be understood and adopted as part of any Administration's policy requires explanation and persuasion, a time-consuming but essential part of democratic decisionmaking.

(c) The President would not be well-served by relying only on full-time volunteer advisers. It is our judgment that limiting participation on the CEA to full-time volunteers would create several problems. First, the President would be able to select as economic advisers only those who could forgo all other sources of income. This would unduly restrict those who could provide advice to the President to those who are retired or who are sufficiently wealthy that they do not need paid employment. In either case, the President would be deprived of having as his advisers the best economists of the Nation, and his advisers would not be representative of the profession at large.

Second, if the full-time advisers were allowed to retain their outside consulting incomes, a range of serious conflict-of-interest issues would arise. This would seriously erode confidence in government. These conflict of interest issues would loom even larger in the case of a part-time volunteer CEA.

Finally, restricting membership in the CEA to those who have the financial wherewithal to serve without compensation would make it more difficult to recruit distinguished economists, not only to the CEA, but also to staff positions. The prestige associated with the CEA comes not only from its proximity to the President, but also from its strong professional reputation. This reputation feeds on itself. It would also be virtually impossible to recruit staff members for the CEA on a volunteer basis. As it is, most staff members take a cut in income to work at the CEA. Most are at a point in their career and lives where it is simply not possible for them to serve full-time on a volunteer basis.

Consultation with current and previous members of the CEA indicates that most of them would not have been able to undertake the position had there been no compensation associated with it. As it is, members of the CEA--like those in many other positions of public service--typically take significant cuts in income when they accept government service. While these economic sacrifices may not have significant adverse effects on recruiting, they may affect how long individuals serve.

30. **Question.** What will be the impact in '97 if the $259,000 budget increase is not approved?

Answer. If CEA funding were left "flat" for FY 1997, in order to absorb the mandatory 1997 pay increase, CEA would have to again reduce staff levels. This would seriously impair the ability of CEA to provide advice and analysis to the President on a broad range of economic issues. CEA is responsible for providing advice and analysis to the President on economic issues including

performance of the macroeconomy, budget and tax policy, international trade, health care policy, telecommunications reform, competition policy, financial institutions, agriculture and natural resources, trends in the labor market, and economic aspects of social security, welfare, technology policy and the environment.

In providing advice and analysis to the President on this broad range of economic issues, CEA produces regular memoranda, briefing papers and reports. CEA monitors on a daily basis critical macroeconomic data and interprets these data for the President and Senior White House Staff in daily memorandum. CEA also prepares the Weekly Economic Briefing for the President, which includes a detailed analysis of current economic developments and more lengthy discussions of a wide range of economic issues or problems. CEA is required by the 1946 Employment Act to prepare an annual Economic Report of the President, which provides an overview and assessment of the state of the U.S. economy and the President's economic agenda. The Economic Report serves as an important compendium of data on the economy and is heavily used by analysts both within and outside government. Finally, CEA is responsible for preparing the monthly Economic Indicators for the Joint Economic Committee of the U.S. Congress.

CEA also plays a central role in the so-called "Troika" economic forecasting process. CEA takes the lead in making the Administration's economic forecast. These projections are then used by the OMB to make expenditure estimates, and by Treasury to make revenue forecasts.

In order for CEA to undertake these responsibilities, CEA has historically had roughly 12 to 15 Senior Economists. CEA currently has 9 Senior Economists. If CEA's budget were left flat, we would have to further reduce staff from the appropriate historical levels. This would seriously impair the ability of CEA to provide advice and analysis to the President on the broad and diverse range of economic issues.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENTS OF:
JAMES B. KING, DIRECTOR
PATRICK E. McFARLAND, INSPECTOR GENERAL

ACCOMPANIED BY:
LORRAINE LEWIS, GENERAL COUNSEL
WILLIAM E. FLYNN, ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE SERVICE
J. GILBERT SEAUX, CHIEF FINANCIAL OFFICER

INTRODUCTION OF WITNESS

Senator SHELBY. Next we will hear from Jim King, Director of the Office of Personnel Management.

Mr. King, your written statement, if any, will be made a part of the record in its entirety, and that will enable us to proceed. You go right ahead.

SUMMARY OF STATEMENT

Mr. KING. Mr. Chairman, I have reduced my summary statement even further, to two paragraphs, with the Chair's permission.

Senator SHELBY. You go ahead. You are recognized.

Mr. KING. Mr. Chairman, this year's request represents a 27 percent reduction from our fiscal 1993 S&E budget of $118.4 million. These figures in part reflect the fact that our full-time equivalent employment in fiscal 1997 will be 3,486, down more than 43 percent from the 6,208 FTE's when this administration took office. We are stronger than ever before in our core mission of merit system protection.

That is the end of my statement at this time, Mr. Chairman. I would be glad to respond to any questions you may have.

Senator SHELBY. Very good. That is moving on. We like this efficiency.

Senator MIKULSKI. Mr. King, you would never run for the Senate. [Laughter.]

PREPARED STATEMENTS

Senator SHELBY. Mr. King, we have your complete statement, and it will be made part of the record along with the statement of Mr. McFarland.

[The statements follow:]

PREPARED STATEMENT OF JAMES B. KING

Mr. Chairman and members of the subcommittee: Thank you for providing me with this opportunity to discuss the President's request for appropriations for the Office of Personnel Management (OPM) for fiscal year 1997. Before turning to OPM's budget request, I would like to review briefly the developments in human resource management throughout the Federal Government generally and with regard to OPM specifically.

As the President noted in his State of the Union Address, the era of big government is over and the Federal work force is working harder and smarter than ever to maintain the quality of the services we provide. At OPM, we are contributing to that effort by continuing to eliminate the barriers to efficiency and effectiveness that have long plagued Federal workers and supervisors.

Through our human resources systems service, we have taken a leadership position in deregulating our performance management and incentive awards systems to make those systems more flexible and constructive for managers and employees alike. In addition, we are simplifying the complex position classification system to reduce the burdens on the ever smaller personnel offices in Federal agencies. and, of course, we continue to work in support of the Federal Salary Council on the locality pay system.

With regard to the 1997 pay adjustment, the President's budget proposes an increase of 3 percent. This level of adjustment will be distributed between a national pay raise and locality pay in proportions determined after discussions with employee organizations and other interested parties. It is important to note that we have once again included in the general provisions the legislative language necessary to ensure that Federal blue-collar workers receive pay adjustments that parallel those granted white-collar employees.

As the size of our Government continues to decline, the work of our employment service is more important than ever. Developing employment policy and providing advice and assistance to agencies as they use voluntary separation incentives and reductions in force to reconfigure their organizations are still major responsibilities of this unit. These services are funded with appropriated dollars.

Additionally, our work in this area is complemented by our responsibility for providing employment information to displaced employees and other citizens who are interested in Federal employment. Many of these efforts, as well as the provision of various staffing services when requested by other Federal agencies, are now being undertaken on a reimbursable basis.

OPM has also developed regulations to support preferential hiring programs within the Government for well-qualified displaced and surplus Federal workers. We have been instrumental in the development of a new interagency career transition center to maximize overall reemployment opportunities for such employees. A pilot facility was opened in the District of Columbia yesterday.

Although they are not operated with funds appropriated to OPM, we would be remiss if we failed to mention the important contributions of OPM's Federal Executive Institute and our management development centers in preparing for the new era of smaller, more efficient government. By focusing on the cultivation of leadership skills for a reinvented Government, and emphasizing the Federal executive's corporate role in government, our facilities set the stage for a new generation of improved organizational performance. These training facilities are funded through fees-for-service paid by client agencies.

Our agency continues to realign as well, not only to focus on our core responsibilities but also to divest ourselves of those activities that can be better performed outside our agency structure. Although many in Government have talked about privatization, we have, in fact, done it. Late in fiscal year 1995, our training delivery operations were transferred to the non-governmental USDA graduate school, and the employees of our Government Affairs Institute moved to the Brookings Institution. We are now in the process of privatizing our investigations function by establishing an employee stock ownership plan company. The inherently governmental policy, oversight, and database stewardship functions will, of course, be retained in OPM.

OPM will continue to provide leadership and oversight of the 113-year-old Civil Service System and will ensure that the Government operates with an open and competitive merit-based, veterans preference, non-political Civil Service. This is the core of our agency's mission. It will be performed vigorously, as always, using OPM's salaries and expenses appropriation to maintain our independent perspective.

In financial terms, it is important to note that OPM's budget request for fiscal year 1997 includes 6 separate accounts that are 2 percent discretionary and 98 percent mandatory. The total of our discretionary requests from both general funds and trust funds is $195.9 million, while a total of $12.1 billion is requested for our three mandatory payment accounts.

As a reflection of OPM's ongoing downsizing, privatizing, and organizational realignment, our full-time equivalent employment level will be 3,486, a decrease of more than 43 percent from the 6,208 when this administration took office in 1993. Consistent with the changes in the size of our work force and the character of our funding, we are requesting a general fund appropriation of $86.6 million for salaries and expenses. This is a decrease of $1.4 million from the amount we received for fiscal year 1996, and is made possible by the successful transitioning of many of our

employment services, such as examination development, testing, and job information, to a fee-for-service basis.

For our Office of the Inspector General appropriation, which is discussed in more detail in a separate statement, we are requesting $9.6 million, including about $1 million in general funds and $8.6 million in transfers from trust funds. This represents a decrease of $0.6 million and contributes to the overall downsizing of the agency.

As alluded to earlier, OPM provides a variety of services which are financed by payments from other agencies through our revolving fund. OPM reversed a ten-year trend of higher deficits in that fund by imposing tough management policies, tighter financial controls across all programs, increased accountability, and downsizing. In fiscal year 1997, $5.0 million in budget authority is requested to help reduce the accumulated revolving fund deficit remaining after the privatization of the training and investigations programs. No additional outlays will be incurred with this budget authority, which will be applied to the retained deficit that totaled $33.7 million at the end of fiscal year 1995.

Our administration of the retirement and insurance programs continues to provide us with unique opportunities and challenges. It is our intent to be a model in the delivery of earned benefits to our customers in a timely and cost-effective manner. The Federal Employees Health Benefits Program is most often presented as worthy of emulation. For example, the administration proposal to institute an annual open enrollment process for Medicare that is similar to that used in our FEHB Program is a source of pride to us.

For the next fiscal year, we are requesting a limitation of $94.7 million in transfers from the trust funds to finance 1,471 FTE's to administer the retirement and insurance programs for Federal employees. Of this amount, $3.5 million is to remain available until expended for the continuing development and implementation of our automated recordkeeping and processing system for the Federal Employees' Retirement System.

As always, the OPM budget also includes mandatory appropriations for the Government's contributions on behalf of annuitants covered by the Federal employee health benefits and life insurance programs, because those individuals have no employing agency to contribute the Government's share on their behalf. Since the needed amounts cannot be predicted with complete accuracy, we are requesting a "such sums as may be necessary" appropriation for each account. For health benefits, we estimate that $4.1 billion will be needed, and for life insurance, the estimated amount is $32.8 million.

As required under the system of financing established in 1969 by Public Law 91–93, we are requesting a "such sums as may be necessary" appropriation estimated to be $8.0 billion for the Civil Service retirement and disability fund. This payment represents the 30-year amortization of retirement costs attributed to pay increases and benefit enhancements.

Thank you. I would be pleased to answer any questions you may have.

Prepared Statement of Patrick E. McFarland

Mr. Chairman and members of the subcommittee: Thank you for providing me with this opportunity to discuss the President's fiscal year 1997 request for appropriations for the Office of the Inspector General. The total request for the Office of the Inspector General is $9,605,000 of which $960,000 is from the salaries and expenses fund and $8,645,000 is from the trust funds. In addition, we plan for $150,000 in advances and reimbursements.

The Office of the Inspector General recognizes the oversight of the retirement and insurance trust funds to be its most significant challenge. These trust funds are among the very largest held by the United States Government. Their assets totaled $375 billion in fiscal year 1995. The amounts of their balances alone are material to the integrity of the Government's financial position. The annual outlays from these funds were $55.9 billion in fiscal year 1995. Further, the outlays are made to millions of annuity recipients and hundreds of health insurance carriers nationwide. Such payments are uniquely susceptible to fraud and indeed, studies by law enforcement agencies, the General Accounting Office, and industry groups have consistently projected that substantial amounts will reflect improper, inaccurate, or fraudulent payments.

We have concentrated our operating resources in functions that return funds to the Government. During fiscal years 1994 and 1995, Office of the Inspector General activities resulted in recoveries to the Government of $127 million and $48 million respectively. Virtually all of these moneys were related to trust fund payments.

These results represent nearly $11 recovered for every dollar we expended in direct program costs for the two year period. In addition, our responsibilities for combating fraud and promoting efficiency in the trust fund programs will not diminish in future years; in fact the Retirement and Insurance Service's workloads are likely to grow substantially in fiscal year 1997 and beyond, generating the need for intensified audit and investigative efforts on our part.

For fiscal year 1997, we are requesting a change in the source of funding for our operations. In fiscal year 1996, the Office of the Inspector General is financed by funds drawn in a proportion of 60 percent trust funds—40 percent general funds. For fiscal 1997, we propose that this split change to 90 percent trust funds—10 percent general funds, which more accurately reflects the nature of the work performed. Shifting our funding allocation will enable us to correctly associate operational expenses with the trust funds. This proposal will not increase the total amount of resources available to the Office of the Inspector General, nor will it add any costs to the Office of Personnel Management or the taxpayer. This shift is appropriate and fully warranted, since the trust funds benefit financially from recoveries due directly to our audits and investigations.

In addition, the President's budget includes a $585,000 reduction in funds appropriated for the Office of the Inspector General/salaries and expenses account for fiscal year 1997, representing a 5.7 percent cut in total resources. Increasing fixed costs, especially for personnel compensation, will magnify the effect of the reduction. We have eliminated all non-core-mission related work in earlier rounds of cutbacks, so that the burden of this reduction will fall directly upon employment levels. Our on-board staffing level will be lower in fiscal year 1997 than it is in fiscal year 1996. However, we will make every attempt to continue to perform the audits and investigations which generate the greatest return on our investment.

In addition to audits and investigations, our program of FEHBP provider debarments contributes substantial value to our oversight of trust fund expenditures. Debarments not only protect the FEHBP program and its subscribers from health care providers who have acted improperly but also, through their reciprocal and Governmentwide effect, provide incentive for many providers to settle underlying problems such as defaulted indebtedness owed to other Federal programs. For example, in fiscal year 1995 we issued 1,356 debarments, which were recognized by the Public Health Service as a principal cause of the 1,000 percent increase in collection of defaulted health education assistance loans. Through judicious and cost-conscious management, we have been able to operate this program with an absolute minimum resource level.

On March 17, 1995, the Office of personnel Management transmitted to Congress the Federal Employees Health Benefits Provider Integrity Amendments of 1995, which would provide us the authority to impose financial sanctions in addition to debarments through appropriate administrative procedures similar to those utilized by the Office of the Inspector General of the Department of Health and Human Services to sanction Medicare providers. As a result, our ability to identify and resolve provider fraud cases and to recover funds which had been wrongfully obtained from the FEHBP would be enhanced materially. I believe that this represents the single most significant current opportunity to improve our operations. Congress has not yet acted on the proposed legislation, and I would urge that it be favorably considered at the earliest possible time.

Finally, the Office of the Inspector General has created an evaluation and inspections component, which conducts studies of program issues and functions. The goal for this new function is to achieve a constructive and interactive relationship with program managers to determine the feasibility of new initiatives, the continuing effectiveness and efficiency of existing operating strategies, and to offer alternatives where desirable.

Thank you again for this opportunity to discuss the Office of the Inspector General's appropriation request. This concludes my prepared remarks.

DOWNSIZING

Senator SHELBY. OPM is the Government's personnel office. Based on your experience with downsizing, are you capable of providing advice to other agencies so that they can utilize the lessons that you have learned, and are other agencies seeking that advice? You have had some experience.

Mr. KING. Yes, Mr. Chairman, we have indeed. And we have used that experience, as you know, for the first buy-out, which was

a method to have people leave the Government's service voluntarily, which we found the most effective and cost-saving way. Along with freezes and attrition, at the end of the day as a last extreme, we have also used the reduction in force, which is a RIF. That is the most expensive and disruptive way.

THE WASHINGTON METRO CAREER TRANSITION CENTER

We opened yesterday, and I think it is reflected in our Federal page in today's Post, a career transition center for Federal employees and Federal contractors who are affected by downsizing to seek jobs. So quickly, just to give you a sense of it, Mr. Chairman, it is state of the art. For the first time, individuals can walk into very pleasant surroundings, and be met by folks who can help them write résumés. Most Federal employees are not familiar with that. They have done Standard Form 171's over their lifetime. By the way, they can now do résumés within Government. We got rid of the 171 as a mandatory thing.

No. 2, sir, when they come in they can learn to do interviews. They are rehearsed in interviews and prepared for interviews. We also review where you wish to be located. Yesterday somebody said, "I am an accountant. I would like to go out to the bay area in California, down around San Jose. Is there anything available out there?" Our people hit the computer and gave them an immediate answer. There are presently 260 jobs available, about six paragraphs description for each one. Would you like a hard copy? Would you like us to trim it down so that you could take another look?

Then you can go over to another machine, a regular computer in which logical questions are asked and probable answers are supplied that help with your own personal search that you should deal with, everything from what you expect to be paid, Senator. These things usually do not come up in a discussion in the context of Government, but they do in the private sector. It is to prepare people for jobs both in the public and the private sector.

We have left being a command and control organization. We act as consultants. The agencies and the people in there are our customers. And we are sensitive to customer relations. So yes, we are being helpful, and we still do oversight, which has a hard edge to it, sir, because if we find someone doing something, for example, a violation of veterans preference, we will go directly to the agency and the individuals involved regarding the specific job that is involved.

Senator SHELBY. Oversight is very important, is it not?

Mr. KING. Yes, sir; and we should be an extension of both the Congress and the executive in that area.

Senator SHELBY. Sir, if you have reduced the number of personnel at OPM from 6,208 to 3,486, that is a decrease of about 43 percent?

Mr. KING. Yes, sir.

Senator SHELBY. You are to be commended for this. And I believe, as I indicated, a lot of governmental agencies could learn from what you have done.

Mr. KING. Well, we privatized, and that is where we placed virtually every single person into another job somewhere. We did not abandon our people. It was not just announcing it.

Senator SHELBY. And a lot of them are a lot better off, are they not?

Mr. KING. Well, Senator, to be candid, when you first came as chair you talked with us, and I know one of the things you stressed was a humane and decent approach into doing this, and we tried to carry that out. We have also had the same commitment from the President through his Executive order last September 12, and that has been the basis for our new career transition center. So it is tied together. This has been an area of collaboration and cooperation.

DEBARMENT

Senator SHELBY. The inspector general concentrates his efforts on combating fraud and promoting efficiency of the trust fund. Those efforts have produced overall good results. Last year the administration submitted legislation proposing to impose financial sanctions in addition to debarments of health care violators. Could you briefly describe the debarment process and what the results are? What will the legislation do to assist your efforts?

Mr. KING. Well, on the debarment—Ed, would you like to respond to debarment? This is Mr. Edward Flynn, who is our retirement and insurance person.

Senator SHELBY. What is the status of the proposal?

Mr. FLYNN. Very quickly, Senator, the inspector general at the Office of Personnel Management has the lion's share of program responsibility for the debarment of fraudulent providers. The Retirement and Insurance Service, which I administer, operates under the common rule debarment where if another Federal agency finds a provider engaging in some fraudulent acts, that person's name is circulated among a list of Federal agencies who might use that provider, and then we pass that information along to our health benefit carriers.

Now, the specific situations where a provider is found to be engaged in some sort of fraudulent practice in the Federal Employees Health Benefits Program is the responsibility of our Inspector General. He could probably speak better to that particularly.

Senator SHELBY. The rest of my questions I am going to submit for the record, as I indicated earlier. Senator Mikulski.

Senator MIKULSKI. Thank you, Senator Shelby.

Senator Shelby, is it your desire to be in the Hart Building with Senator Dole?

Senator SHELBY. Yes; I have to be there about 3 o'clock.

Senator MIKULSKI. OK, and I am going to move crisply, as well, in respect of the situation that confronts you.

Senator SHELBY. If you are not through, I will let you proceed and you can adjourn the subcommittee.

BLUE CROSS/BLUE SHIELD PRESCRIPTION DRUG BENEFIT

Senator MIKULSKI. Well, Mr. Chairman, I want to acknowledge your leadership in the Treasury-Post Office matters, and thank Mr. King for testifying at this hearing. I know there are many topics we all want to discuss relating to downsizing and Federal employee benefits. The one I would like to focus on, if I could, is on the Blue Cross/Blue Shield prescription plan for Federal retirees. I am very much concerned about this plan because it mandates a 20-percent

copayment upon the Federal retirees unless they have their prescription drugs filled through a sole-source single contract mail order program.

I am concerned about the fact that this could be a barrier to senior citizens getting the lifesaving drugs they need. I am concerned about its impact on jobs and among local pharmacists, and also acknowledging the fact that we need to save money.

Mr. King, I want to acknowledge the need for fiscal soundness. But I hope you have been reexamining this program in light of what a 20-percent copayment means. For many of our senior citizens, a 20-percent copayment is absolutely dysfunctional when they have an infection, when they have pneumonia, or when they are trying to recover from an accident. Also, getting a 90-day supply of drugs with an 800 number arriving in a mailbox does not work for senior citizens, particularly if you are old, sick, and easily bewildered by the complexity.

You need freedom of choice. You need to be able to go to your local pharmacy to be able to have someone who is managing your care, not just looking at this as managing the benefit.

I do not see prescription drugs as a commodity to be disbursed, but as a tool to be used in the clinical treatment. So therefore, what I am looking for is a conversation with you on the issues related to how do we save money and meet our fiscal responsibility, but at the same time save lives and not put local pharmacies out of business.

BLUE CROSS/BLUE SHIELD PRESCRIPTION DRUG PROGRAM

Let us go right to the prescription drug program. Could you tell us what your experience has been with this, and also are you looking at other public policy changes?

Mr. KING. Yes, Senator; I think the first thing, as I know the Senator is aware, but I think the record should reflect that this is Blue Cross/Blue Shield, and this is our Medicare Part B. The Blue Cross/Blue Shield plan has about 3.5 million people who are participating out of a total of 9 million Federal annuitants and employees and their dependents in the FEHB Program. Of that Blue Cross/Blue Shield group, of which 3.5 million is reflected, 75 percent of them have used mail-in with a $12 copay for some time now.

The 25 percent is the Medicare B group. That 25 percent presently did not have to use the mail-in, as everybody else did in the plan. That particular population represents approximately 25 percent of the plan. They also represent 61 percent of the costs of this plan. So, what we were looking at this year was a premium increase of about $5.42 per individual health care enrollment, or a $12.03 increase for family coverage.

Senator MIKULSKI. And what is that, a month or a year?

Mr. KING. That is a month. So that the first thing that we were seeking to do, and the Senator said it very, very articulately, is to strike that very careful balance, with its implications for both the local economy and the individuals themselves, that will deal with serious cost matters, because the multiplier of 900,000 is very substantial. The kinds of concerns expressed by the Senator are ex-

tremely legitimate concerns. There is no question in my mind that those are legitimate concerns and should be addressed.

At this time I know that Mr. Flynn will be seeking the participation by broader groups to discuss the implications of this and other health care matters, as we have addressed them. But this is a serious matter.

HEALTH BENEFIT PLAN CHOICES

Senator MIKULSKI. Senator Shelby, I know you and I will have more extensive conversations about this. And I want to be clear: I am not opposed to a reasonable copay. We understand that. Nor am I opposed to the concept of mail order. In many ways that is an appropriate tool. But there needs to be an appropriate array of choices, and the 20-percent copay is for a preferred provider. In certain parts of the rural parts of my State there are not preferred providers, though there are excellent providers, and that is even a 40-percent copay.

Senator SHELBY. If the Senator from Maryland would permit me, it looks to me like choices by the retiree would bring about savings, because that is what you have in the marketplace, is choices, do you not? And I do not know that, Mr. King.

Mr. KING. This year there will be 420 choices, the vast majority of them being HMO's. So they are somewhat restricted geographically——

Senator SHELBY. That is a lot of choices.

Mr. KING. But we do have plans that permit people to make this kind of a purchase without copay. It is just that this plan will not permit it. But we are reviewing it. The Senator has raised some pertinent issues, and, Mr. Flynn, I believe you would like to reflect that for the record.

PRESCRIPTION DRUG BENEFIT BACKGROUND

Mr. FLYNN. I would be happy to just take a moment. I think Director King has very graphically outlined the situation we faced last year and the great care we took as we accepted proposals not only from Blue Cross and Blue Shield, but other plans participating in the health benefits program. Shortly after that decision was announced, we did get, from groups representing Federal retirees, and from groups representing the retail pharmacy organizations, a series of concerns about the rationale behind our decision and questions about factors that we ought to look at.

We have met on several occasions with the National Association of Retired Federal Employees on this issue, and in December of last year, before this provision went into effect, met with representatives of the Chain Drug Association, the Retail Drug Association, and some local pharmacies in the Washington, DC., metropolitan area.

Senator MIKULSKI. Mr. Flynn, if we could skip the process, and I will tell you why. We are about to have a very dramatic event, and one that I think touches every Senator very deeply, so if we could—and this is in no way meant to be abrupt, but this is a painful day in the Senate. It is painful for Republicans, it gives all Democrats a pause, so now what has been your experience, and what steps do you want to go forward where we do keep saving

money, provide freedom of choice, and make sure we are not putting people out of business?

Mr. FLYNN. Between now and the end of this month we will convene several additional meetings with stakeholders in this process who have an interest and who have suggestions to make for us. At the end of May, all plans participating in the health benefits program will submit their rate and benefit proposals, and over the course of the summer we will be negotiating with them. I can assure you, as Director King has, that this particular matter of the prescription drug benefit will get very close scrutiny, and we will want to make a decision that achieves that balance between care and cost.

Senator MIKULSKI. Well now, will you be developing an array of tools to deal with the issue?

Mr. KING. What we will include, for example, is at least one school of public health where we are looking at the broader implications, as you have suggested, Senator. We will continue to look at costs, because, as you know, it is a $200 million cost item, and that is merely for 900,000 people. So that the implications from this are profound, but so are the medical implications. So we would like to do a thorough review on exactly what they are, because above all I think that we share the concerns of the committee, and that is as the Hippocratic oath says, we do not choose, nor would we want to be a part of creating any harm.

Senator MIKULSKI. Well, we understand that. So I have, then—does this committee have a commitment from you, then, to be examining this policy and to come in with a variety of alternatives that meet the three goals of saving money, protecting lives, and minimizing harm to essentially small business owners, the retail pharmacists?

Mr. KING. We will certainly commit to that. Our first obligation will be to the people who presently are the users, our customers.

Senator MIKULSKI. Absolutely.

Mr. KING. And what we will do is, just as you suggest in that context, broaden the review which we have already started to do, and then, if you would like, we will report to you on a regular basis as to such progress.

Senator MIKULSKI. And to really, then, negotiate with the insurance companies understanding the market situation?

Mr. KING. Oh, yes. Yes; but at the end of the day still, unless we get other direction, the bottom line still is that 72 percent of this is picked up by the Government, the employer, and the other part is picked up by the employees, so that we are going to be very sensitive to all of the equities that we are involved in here, plus health care.

MAIL-ORDER PRESCRIPTION DRUGS—NATURE OF CONTRACT

Senator MIKULSKI. I understand. Well, while we are doing that, then, how did one mail-order company get this contract? Is this not a sole-source contract?

Mr. KING. Well, we deal directly with Blue Cross/Blue Shield. Blue Cross/Blue Shield came forward with the proposal. Their providers we do not deal with. We never have.

Senator MIKULSKI. But you OK'd the proposal, then, for mail order only?

Mr. KING. Yes.

Senator MIKULSKI. Did you ask them to look at other things? Did you look at whether they have got a sweetheart deal here? Are there conflicts of interest? Do they have a proprietary investment in this mail-order company?

Mr. KING. Senator, as you are aware, three-fourths of the people who are in the program presently have mail order. The method by which these companies do it, as long as it meets the professional standard of care and performance, is what we examine. Our interest is in outcomes, as you suggested, not process. But I understand the question you raise.

Senator MIKULSKI. Do you understand what I am saying? You have got one company with one contract that is a $200 million contract. I know private sector firms that would do cartwheels for that.

Mr. KING. It is $75 million in direct cash, and that is spread over 900,000 people. The other savings come from the copayment and the prescriptions that are not written. I think Mr. Flynn can speak to that.

SAVINGS THROUGH MAIL-ORDER APPROACH

Senator MIKULSKI. Well now, how much money do you feel you have saved through a mail-order-only approach here?

Mr. KING. Approximately $144 a year per policyholder or family that would have had an increase this year.

Senator MIKULSKI. No; I did not ask you what you saved in terms of an increased deposit. How much money, by going to the mail-order copayment methodology, has this saved?

Mr. KING. We will not know, will we? This is an estimate, is it not, Mr. Flynn?

Mr. FLYNN. When we did our contract negotiations last summer, Senator, our actuaries estimated that this would achieve savings in the program of $200 million.

Senator MIKULSKI. And of that $200 million saving that they project, how much of that came from the 20-percent copay?

Mr. FLYNN. I am sorry. I see what you mean. That $200 million figure, Senator, was broken up into two parts, $75 and $125 million. We estimate $75 million of that figure comes from discounts at mail order. The remaining $125 million comes from a combination of both reduced utilization—that is to say, fewer prescriptions being written—and from the imposition of the copayment at the retail pharmacy.

Mr. KING. And the cost of the copayment, I think, was the question, was it not, Senator?

Senator MIKULSKI. Yes; how much money was generated by the 20 percent, itself?

Mr. FLYNN. I would have to go back and get that figure exactly.

Mr. KING. Can we get that for the record?

Mr. FLYNN. It is the major part of the $125 million.

Mr. KING. But I would like to have an exact figure for you, Senator.

Senator MIKULSKI. That is right. So you see, my whole point is it looks like the mail order is saving the money. It is not necessarily the mail order as a tool that is saving the money, it is paying the 20-percent copayment that is generating the money. So it is essentially a tax on Federal employees. That is what the copayment is.

Mr. FLYNN. I might just add, Senator, for a second——

Senator MIKULSKI. Well, before you do, do you see the point that I am making? And I understand that one of the tools in contemporary managed care is to have a modest copayment so, one, because of actual costs, actually generating some revenue, but at the same time to make an awareness that you do not overutilize. But for people in Part B Medicare, taking medications is not their hobby. You do not take insulin, kumadin, nitroglycerine patches as a hobby. So you tend to take what you are told. And the management of the care comes by a local pharmacist with your record on a computer screen that says either contraindications or overutilization.

And what is happening, the staff would also find interesting, is you could get a drug that you have gotten at your pharmacist in an emergency, get a mail-order one, it could be a generic drug with a different name, we have had instances where people were taking double doses because they thought they were taking two different drugs when they were taking double amount of the same drug under different names. Those are the kinds of things that local management deals with.

And again, if you are like my mother with insulin, you could buy that in mail order, you could buy the needles in mail order, she could buy her nitroglycerin patches in mail order, it is not very appropriate to have a 90-day supply and do that.

I interrupted you, but do you see? So this money that we are saving, the question is are we saving money, or are we getting money because we are charging a 20-percent copayment?

SUBSIDIZATION OF MEDICARE PART B ENROLLEES

Mr. FLYNN. And one could come around at this by saying that the roughly 2.5 million non-Medicare Part B participants in the Blue Cross program were, in effect, subsidizing the Medicare Part B enrollees. Utilization among non-Medicare enrollees of the mail-order pharmacy was at about 80 percent of the total volume in 1994, whereas Medicare Part B enrollees were utilizing mail order in terms of total volume about 10 percent of the time. And those non-Medicare Part B enrollees have had a copayment at the retail level and at the mail-order level since the inception of this mail-order program.

So one could argue, as I say, that there was some subsidization occurring prior to the imposition of this copayment. That is not to deny the point that you are making, and I would just like to restate our commitment to work with this.

Senator MIKULSKI. But you know, that is true in everything. I mean, I am in a Blue Cross/Blue Shield pool and others are in private insurance. If you are 20, unless you are an accident victim, you are subsidizing somebody who is older. I mean, what is it about being over 65 or over 70 or over 80 or over 90? You tend to

need more medical attention. You do tend to need certain pharmaceutical prescriptions that are your lifeline, so we all understand that. I am a subsidizer of universal service on the telephone. Because of the way I use my phone, I am subsidizing people who are old and are getting from my local RBOC a lifeline service. I mean, that is called being able to provide a universal benefit.

Mr. KING. I think, Senator, the response was on the question of taxing other Federal employees. What we are saying is, in fact, most of the program is subsidizing this part of the program. What we would be looking at—and, Senator, I do not think any of us mean to suggest that everyone, merely because they are 65, automatically fall into an inability to handle prescription medicine through the mail, because we have a number of people who are, in fact, retired, who do use the mail service at the 80-percent level on a regular basis, and have for a number of years.

There may be a way in there. I am merely suggesting that saying that everyone who is a Medicare Part B is incapable of managing their medical needs without having this particular provision in it may go a bit far. We would like to examine it very carefully, because in point of fact 75 percent of this is being underwritten by the participants in the program, and they are always writing in themselves. So it is a question of fairness.

But you do raise an excellent point that there could be people who may fall within the cracks in this, and this is what we would like to look at, and we genuinely share your concern. But it is not an inequitable system. We are looking at $200 million that would be passed on to ratepayers, to everyone.

SAVING FROM COPAYMENT

Senator MIKULSKI. Well, I think that is an exaggeration. I think we have just gone through $75 million, $125 million, a 20-percent copayment which generated a significant amount of that $125 million you talked about. So I think that is an exaggeration.

This committee has not said it is against the copayment. We just think that the way this has been set up is you have no choice, and it is either go mail order or 20-percent copayment, or a 40-percent copayment. We are looking at what are the—I will tell you what I am interested in—what are the contemporary tools used in managed care to achieve freedom of choice, and in some instances you do pay a premium and you do pay a higher copayment or whatever, but I do not think that this is an equitable situation, and I am telling you, it does have serious ramifications in terms of clinical management and in terms of the local business communities where there are a significant number of Federal employees. That is all I am saying.

But if we are going to get into the fairness issue and so on, then you get into that in each and every issue.

Mr. KING. No; we believe, by the way, insurance is a broad base, and is to do that. And that is what we like to look at.

Senator MIKULSKI. It is like community rating.

Mr. KING. So there is no area of disagreement there, Senator.

HEALTH BENEFIT PLAN CHOICE

Mr. FLYNN. Just on the topic of choice, I wanted to reiterate the point that there are available to just about anyone who participates in the program virtually anywhere, anywhere from a half-a-dozen to a dozen plans that are available and that people can choose each open enrollment period or open season. I think one of the hallmark features of this program is choice.

Beyond that, we have not done anything to mandate use of mail order. In fact, the mail-order program in the Blue Cross/Blue Shield benefit package is for prescriptions that are for 21 to 90 days in length, and we have always assumed for all of our participants in this program that medications needed for acute care with a copayment would be gotten at the local pharmacy, because quite honestly when people have acute needs that is the only place they can go to effectively to get those needs met.

SAVINGS FROM COPAYMENT

Senator MIKULSKI. Well, I am going to just—just by going over your own numbers, the overwhelming proportion of cost saving, which is over 60 percent, come from the pharmacies, and they come from the copayment. At most, only 30 percent have come from cost containment, the kind of the cost containment measures on the drug manufacturers that come with bulk buying and all of those other things that are supposed to be efficiencies by going to the mail order. So I think what we could do is go over and over and over the same thing.

Again, I acknowledge mail order as a tool. I acknowledge the need for some type of modest copayment. I think if you have a copayment on one, you might consider a copayment on the other. But I am not into the methodology. I think wise heads at a school of public health, HCFA, that are into the business of managing prescription drug programs to contain costs and yet have some choice in flexibility are what we are looking at.

But we have, in some of our States—Florida, Texas, Maryland, New York, California—a significant number of Federal employees, and they are often concentrated in particular zip codes around great Federal installations. And it breaks my heart to know that people who worked at the NIH inventing the knowledge that has led to prescription drugs now have to pay a 20-percent copayment to get the very prescription that they in some way contributed creating the knowledge that led to its invention. So these are the kinds of problems that we are dealing with.

TIMETABLE FOR NEGOTIATIONS

Now, what is your timetable? We do not want to wake up and get through the appropriations and see that we have had a nice hearing but it is going to be a done deal to renew this next year.

Mr. KING. The opening is the end of June when all the folks have their paper in on the table. And then we do the negotiations through the end of August.

Mr. FLYNN. They will actually have proposals in by the end of May and negotiations through the summer, with an announcement around Labor Day or shortly thereafter. But the consultations that

I mentioned to you earlier, Senator, are taking place as we speak, and we hope to have the bulk of that wrapped up before the end of this month.

Senator MIKULSKI. Which would be the changes in the program that would achieve these goals?

Mr. FLYNN. To the degree that they are capable of being implemented, yes.

Senator MIKULSKI. I do not know what that means, to the degree that they are capable of being implemented.

Mr. FLYNN. Well, I guess what I would say is we have talked already with a number of people. We still have some more to go. The range of options that we have seen have been fairly limited. Because the cost is there, it is a question of how that cost is administered and who is to bear it. Now, we may have some ideas about things that we have not seen previously, but right now, I am not aware of what that might be.

Mr. KING. And we are wide open for anyone who has any thoughts, Senator.

Senator MIKULSKI. That is not our job. We are not the executive branch by proxy.

Mr. KING. No; but I did not want to have you feel you were excluded.

Senator MIKULSKI. Well, we do not feel excluded. What we feel is that we have constituents of all ages, as well as small business, that are asking us what can be done to ensure the three goals that we have set. All I am saying is we have an appropriation that we need to move. When does Senator Shelby hope to do a markup?

Mr. PARKINSON. Senator, I would assume shortly after the House action.

Senator MIKULSKI. Then this should be the time, through the markup or whatever we need to do, to make other adjustments, do you not think?

Mr. KING. We will do the best we can within the timeframe, but I want to be absolutely candid with you, Senator, and the committee as to what our timelines are, and as I said, we have already started the process and we are sensitive to the issues you have raised, and that will be in the discussion. Right now, we do not have anything definitive before us.

Is that correct? Am I reflecting the work to date correctly?

Mr. FLYNN. We have several suggestions that have been made by stakeholders in the process that basically deal with allocating costs among the participants differently, but beyond that we do not have any particularly novel proposal. Now, as I said, we will be meeting with some more groups between now and the end of the month. And if we get something new, we will certainly work with that.

Senator MIKULSKI. If we get something new, we will work with that? Well, I do not know what that means. I mean, are we going to search for novelty?

Mr. FLYNN. I apologize if I am being confusing Senator.

TIMETABLE FOR NEGOTIATIONS

Senator MIKULSKI. And I do not want to be tart. I know we are all in a very tight timeframe, that you need to come to closure with

your negotiations, and are you saying you have to have your contracts done by Labor Day?

Mr. KING. Yes; that is correct, Senator. Well, within a week of that Labor Day period, I would say, because of the printing and getting ready for all the materials for the open season.

Senator MIKULSKI. I understand that. And when, by your timelines, would be the last date by which you see yourself having come to closure on some new approaches to this?

Mr. FLYNN. Well, as I say, I think that we will have completely talked to the stakeholders involved in this process by the end of this month. If there are new approaches, we will know them by then, and we will use those new approaches as we enter into negotiations with Blue Cross/Blue Shield and the other carriers who participate in the program.

Senator MIKULSKI. And what is the timeframe on those negotiations?

Mr. FLYNN. Those negotiations begin the 1st of June and run through the course of the summer. Some of them are very protracted. These are big contracts involving, as you can imagine, large amounts of money.

Senator MIKULSKI. Absolutely.

Mr. FLYNN. But typically, we do not finish up until the very latter part of August.

PROGRESS REPORTS

Senator MIKULSKI. So you really do not finish up. So as we finish our markup we could—I know Senator Shelby would just like to know the process. How would you like to proceed? Should we get some regular reports or a biweekly update? Does he have a particular way he would like to do this?

Mr. PARKINSON. I do not know that he does, Senator, but I will certainly check with him.

Senator MIKULSKI. Well, how about every 2 weeks, because they have got to do their stuff, just to know where we are, what the ideas are, and where we are progressing.

Mr. KING. Seems fair enough.

Senator MIKULSKI. Do you think that is a reasonable way? We are not talking about some detailed thing that you have got to run through OMB and whatever pod you are in and all of that.

Mr. KING. OMB is omnipresent in our lives.

Senator MIKULSKI. But you know what we are saying. Really, we are talking about a crisp kind of update on this.

Mr. KING. I understand. That is reasonable, Senator.

Senator MIKULSKI. Do you not think?

SUBMITTED QUESTIONS

Well, there are many other questions, but time is short. Thank you for appearing today, Mr. Director. We will have some questions for the record, and I will to. We would ask you to respond as quickly as possible.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

DOWNSIZING EFFORTS

Question. Director King, I want to compliment you on the work you have done in downsizing and shifting operations at the Office of Personnel Management. The changes you have implemented have no doubt been difficult, but it would appear that those changes will benefit other Government agencies, and more importantly the taxpayers of this country. I would like to briefly review some of the steps you have taken. Training was transferred to the Department of Agriculture Graduate School and the Government Affairs Institute was moved to the Brookings Institution.

Could you briefly discuss how these actions impact OPM and more importantly those agencies which rely on the services these components have provided?

Answer. On July 1, 1995, OPM privatized its non-residential training delivery function, moving some 220 employees off the Federal payroll while providing a seamless transition for customer agencies. The OPM privatization project met its five goals:

- kept most of the training programs together,
- provided a seamless transition for customers,
- maintained a nationwide training capacity,
- gave OPM's employees a chance to move into the privatized function, and
- moved quickly to keep the business units viable.

OPM was able to transfer a function that was not inherently governmental to the private sector; reduce the size of its workforce; save money by returning surplus space, equipment, and furniture to GSA; and concentrate its resources on its core functions. The agencies that relied on the training services still had access to them. The training services were managed by essentially the same people, delivered usually in the same place, and taught often by the same instructors.

Question. OPM has also changed its processes for providing training to those agencies. From this point forward OPM will do training on a reimbursable basis. Is that correct?

Answer. OPM has retained its executive and management development centers--the Federal Executive Institute and the Eastern and Western Management Development Centers.

We kept these three residential centers because we believe the people they educate are key to the success

of Government,and we believe the Government needs to retain the capacity to reach them. The executive branch faces extraordinary changes in coming years, and we need to work with these key people if we are to succeed. This is especially important in educating managers about new Governmentwide requirements, such as those in the Government Performance and Results Act.

All three of these centers are Revolving Fund activities: the only money they receive comes from the tuition that Government agencies pay to send their managers and executives. They receive no direct appropriations.

OPM also provides, on a reimbursable basis, Training Management Assistance (TMA). TMA provides a service in which agencies, OPM, and competitively-selected contractors collaborate in the design and development of high-quality training programs and related products. OPM continues to provide a training policy function which is funded by appropriated funds, not reimbursable funds, as has always been the case.

Question. Training is not always a priority for agencies. As budgets get tighter and agencies smaller, it would seem that training would become more important, but if history proves correct, that might not be the case. How will OPM fit into this new era? Is OPM dependent on reimbursement to keep people in your training area? What happens if agencies choose not to seek training and OPM input?

Answer. We share your worry that funding constraints may lead Federal agencies to short-change leaders and their employees in the area of training and development. To counter this possibility, we work hard and constantly to communicate to agencies the importance of what our centers offer. And we also work hard to deliver such excellent courses that those who come will go back and encourage their colleagues to attend. Even in this current year of shutdowns and reduced appropriations, the three centers will manage to pay all of their costs from current income.

Of course, OPM's role in training is not limited to the training agencies seek from OPM itself. A major OPM training responsibility is that of providing agencies with leadership, guidance, and assistance with regard to the training function. OPM does this in a variety of ways:

- provides Governmentwide criteria to ensure a consistent approach to training and development;
- conducts oversight assessments of agencies' training programs;
- provides education and technical assistance to

of Government, and we believe the Government needs to retain the capacity to reach them. The executive branch faces extraordinary changes in coming years, and we need to work with these key people if we are to succeed. This is especially important in educating managers about new Governmentwide requirements, such as those in the Government Performance and Results Act.

All three of these centers are Revolving Fund activities: the only money they receive comes from the tuition that Government agencies pay to send their managers and executives. They receive no direct appropriations.

OPM also provides, on a reimbursable basis, Training Management Assistance (TMA). TMA provides a service in which agencies, OPM, and competitively-selected contractors collaborate in the design and development of high-quality training programs and related products. OPM continues to provide a training policy function which is funded by appropriated funds, not reimbursable funds, as has always been the case.

Question. Training is not always a priority for agencies. As budgets get tighter and agencies smaller, it would seem that training would become more important, but if history proves correct, that might not be the case. How will OPM fit into this new era? Is OPM dependent on reimbursement to keep people in your training area? What happens if agencies choose not to seek training and OPM input?

Answer. We share your worry that funding constraints may lead Federal agencies to short-change leaders and their employees in the area of training and development. To counter this possibility, we work hard and constantly to communicate to agencies the importance of what our centers offer. And we also work hard to deliver such excellent courses that those who come will go back and encourage their colleagues to attend. Even in this current year of shutdowns and reduced appropriations, the three centers will manage to pay all of their costs from current income.

Of course, OPM's role in training is not limited to the training agencies seek from OPM itself. A major OPM training responsibility is that of providing agencies with leadership, guidance, and assistance with regard to the training function. OPM does this in a variety of ways:

- provides Governmentwide criteria to ensure a consistent approach to training and development;
- conducts oversight assessments of agencies' training programs;
- provides education and technical assistance to

agencies;
- collaborates with agencies on human resource development issues; and
- advises agencies on retraining programs as an integral part of agency downsizing and streamlining plans.

Our collaboration with agencies is exemplified by our relationship with the interagency Human Resource Development Council. The Council acts as an advisory body to OPM and the Interagency Advisory Group of Federal personnel directors and consists of representatives from the major departments. Together, OPM and the Council have undertaken a number of activities, such as:

- co-sponsoring a national conference on human resource development;
- drafting training regulations;
- identifying actions to improve the performance of Federal training organizations; and
- identifying actions to improve the practice of Government training.

OFFICE OF INVESTIGATIONS EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

Question. OPM has been in the process of creating an employee stock ownership plan--ESOP--for your investigations unit. I believe this is a first for a Federal entity. Many questions were raised when OPM made this proposal last year. You have answered all of those questions and are currently proceeding. Could you briefly describe what has happened and what we can expect? Have all of the questions pertaining to the security issue been resolved?

Answer. The creation of the ESOP for the Investigations Service of OPM will be a first in the Federal Government. We believe that we have answered all the questions on the ESOP and adequately addressed all concerns which have been raised. We are currently proceeding toward a startup date of July 7, 1996, for operations of the new ESOP company, US Investigations Services, Inc., which will be headquartered in Boyers, Pennsylvania.

In December 1994, the President announced plans for the second phase of reinvention of the Federal Government. These plans included the privatization of OPM's Investigations program.

OPM considered various privatization options and their impact on both current OPM employees and agencies' security programs. In determining how best to approach privatization of the Investigations program, we had the following three criteria:

- to do what was best for the American taxpayer, by streamlining Government and reducing the number of Federal employees;
- to continue to provide high-quality service to OPM's customers; and
- to do what was in the best interest of OPM employees of the Investigations program.

One option considered was for OPM to contract for investigative services with a corporation owned by its employees--an Employee Stock Ownership Plan (ESOP) company. The employee owners of this company would be the OPM employees from the Investigations Service who would be involuntarily separated from their Federal positions as a result of privatization. OPM contracted for a feasibility study which concluded, among other things, that the ESOP option would be feasible.

In June 1995, OPM contracted with a trustee to establish the ESOP company and negotiate a contract with OPM. OPM also awarded a contract for a cost-benefit study in November 1995, to provide an independent assessment of the benefits and costs of the ESOP company. The findings of the study estimate savings of at least $20 to $25 million over the first 5 years of the ESOP's operations. A Chief Executive Officer and a Chief Financial Officer have been selected by the trustee to start up the ESOP company.

Reduction-in-Force notices have been given to affected OPM employees with a separation date of July 6, 1996. Job offers at current salary levels have been made by USIS to all Investigations Service employees who received a RIF separation notice. The company is due to begin operations on July 7, 1996.

OPM will maintain responsibility for ensuring the proper use of Federal, State, and local law enforcement data and will provide adequate safeguards to protect that data. No information will be made available to the contractor unless OPM is assured that release of that information is consistent with its internal security requirements and Privacy Act constraints. The contractor will be held to a strict standard of safeguarding protected information.

OVERALL GOVERNMENT EMPLOYMENT

Question. When President Clinton took office he indicated he was going to reduce Federal Government employment by 100 thousand. Later negotiations on budgets increased that number to over 270 thousand. The President issued an executive order reducing the number of personnel, buyout legislation was enacted, and the

administration recently proposed an additional buyout proposal. Could you tell me where we are with regard to overall personnel statistics in the Federal Government?

Answer. The number of employees in executive branch (non-Postal/Postal Rate Commission) agencies was 2,188,647 for January 1993 and 1,957,018 for April 1996. This represents a decrease of 231,629 employees for this time period. These figures represent total on-board employment (not FTE's) and include all work schedules (full-time, part-time, intermittent), and tenure groups (permanent and temporary).

Question. How does this break down between Defense and non-Defense agencies?

Answer. The number of employees in Defense agencies was 966,087 for January 1993 and 807,635 for April 1996 (a decrease of 158,452 employees). The count for non-Defense agencies was 1,222,560 for January 1993 and 1,149,383 for April 1996 (a decrease of 73,177 employees).

Question. How many people took the initial buyouts?

Answer. Over 110,500 buyouts have been paid through the end of FY 1995.

TABLE OF DOD AND NON-DEFENSE BUYOUT TOTALS

DATA AS OF	FY 93	FY 94	FY 95
DOD FY	32000	21033	24792
DOD CUMULATIVE	32000	53033	77825
NON-DOD FY	0	14531	18203
NON-DOD CUMULATIVE	0	14531	32734
TOTAL FY	32000	35564	42995
GRAND TOTAL	32000	67564	110559

[Non-Defense totals are from the Central Personnel Data File (CPDF). DOD totals are from DOD's annual fiscal year reports on the use of buyouts. CPDF totals for DOD are somewhat lower than DOD's official counts (CPDF shows the following FY buyout totals for the Department of Defense: FY 93 = 19,099; FY 94=20,040; and FY 95=23,544). The significant difference in FY 93 counts is attributed to coding methods used to identify buyouts paid early in the program. DOD's FY 93 numbers are considered to be a more accurate reflection of buyout use. For all other purposes (i.e., demographic comparisons, average ages/grades, etc., OPM relies on CPDF buyout totals.]

Question. If the proposed legislation is adopted, what are the anticipated results?

Answer. When buyouts began in 1993, turnover picked up and the retirement rate doubled. These trends continued through FY 1995, as non-Defense agencies used incentives. With deeper cuts predicted for non-Defense agencies and buyouts no longer available to non-Defense agencies, we are unable to predict what course future turnover may take. Having targeted buyouts available provides an effective tool for managing future cuts. Buyouts are a means to get turnover moving without having to use more costly and disruptive RIF's.

Question. Are the people taking buyouts the ones we want or are we losing people we want to keep?

Answer. There have been rumors of "brain-drain," but agencies are not reporting this to us.

It is important to remember that buyouts were not the reason for workforce reductions. They were simply a tool to accomplish them by increasing voluntary attrition and minimizing the need for involuntary separations, or RIF's. Without buyouts, employment cuts required by law and brought about by budget reductions would have required thousands of additional RIF's which are far less targetable, far more disruptive, and far more devastating to the productivity of the workforce. RIF's affect the "wrong people" far more dramatically than buyouts.

We have found that most agencies seem to have been quite judicious in their use of the buyout authority and carefully excluded groups or occupations that had continuing critical staffing needs.

Further, the law was crafted to allow agencies to delay the separation of <u>individuals</u> when the agency has determined that they are critical to ensure performance of the agency mission, thus avoiding so-called "brain-drain."

Most agencies targeted buyout offers to components or categories of occupations that were facing reductions. For example, NASA did a fine job with their program. They targeted offers based on specific mission changes and downsizing needs. When further reductions at NASA were announced, they were able to plan a second round of offers to move toward meeting the additional cuts with minimal layoffs.

Agriculture's Forest Service was able to save almost 320 employees from surplus lists by aggressively using buyouts in its Oregon and Washington offices. Buyouts were used there to create vacancies for the placement of surplus employees. The United States Information Agency was able to cancel RIF notices for its employees after offering buyouts.

Even at OPM, where large RIF's have been necessary, buyouts reduced the number of employees involuntarily separated in addition to streamlining other parts of the agency. OPM restricted certain groups (for example, most of the retirement area) from eligibility because their missions are critical.

Question. Are people who are eligible to go sitting around waiting for a better option? Is this frustrating agency efforts to make changes?

Answer. Many factors enter into an employee's decision to leave the Federal workforce. It is important to understand that employees will not necessarily leave a job just because they become eligible for retirement, or have skills that are marketable in the private sector. When confronted with economic concern, or uncertainty about other employment prospects, employees often decide to remain in place. If significant downsizing is to occur in this kind of environment, we believe that a stimulus like buyouts can encourage unneeded employees to leave, without generating the costs and disruptions of reductions in force.

When the Defense Department began using its buyout authority at the start of 1993, the quit rate in Government experienced an increase for the first time in 5 years. Following a 4-year trend downward, white-collar retirements nearly doubled from 1.4 per 100 employees in 1992 to 2.7 (higher than any of the preceding 4 years). Blue-collar retirements jumped from 2 per 100 employees to 5.5. We believe that buyouts were instrumental in jump-starting stalled turnover and moving people out the door. Without buyouts, it is likely that many agencies would have been forced to resort to wide-scale, expensive, and disruptive layoffs to accomplish any downsizing.

Question. Are there other alternatives?

Answer. The key elements of a comprehensive downsizing program would be:

- Targeted buyout authority;
- Aggressive retraining of skilled employees;
- Aggressive use of career transition and outplacement centers;
- Allowing employees continued health insurance coverage under the Federal Employees Health Benefits Program after separation; and
- Allowing one employee to volunteer to be

RIFed to save the job of another employee.

INSPECTOR GENERAL ACTIVITIES

Question. The Inspector General concentrates his efforts on combating fraud and promoting efficiencies of the trust funds. Those efforts have produced good results. Last year, the Administration submitted legislation proposing to impose financial sanctions in addition to debarments of health care violators. Could you briefly describe the debarment process and what the results are?

Answer. Because the shortcomings of the existing Federal Employees Health Benefits Program (FEHBP) statutory debarment authority rendered it essentially unusable, we have implemented the regulatory debarment program established under the Nonprocurement Debarment and Suspension Common Rule. This Governmentwide system, based on an Executive order, provides that debarments issued by one agency may be used by other agencies that are common rule signatories to exclude the same individuals or entities from participating in their respective programs without the need to relitigate the underlying factual basis for the debarments. Several agencies, most notably the Office of the Inspector General of the Department of Health and Human Services (HHS), impose sanctions on health care providers. While the HHS Medicare program exclusions are not themselves common rule actions, this Office of the Inspector General, acting on behalf of OPM, is able to use them to debar the offending parties from FEHBP, because we are a common rule signatory. Moreover, our appropriations language forbids FEHBP from paying any provider who has been debarred from Medicare. Through our cooperative working relationships with the FEHBP carriers, we seek to assure that no payments of FEHBP funds, either directly or indirectly, are made to debarred providers.

Since May 1993, we have issued over 4500 debarments of health care providers. Based on activity reports from the carriers, it appears that, at a minimum, several thousand currently debarred providers have previously rendered services to FEHBP subscribers, and they are now excluded from obtaining program funds. [A savings provision in our regulations assures that benefits will be paid to subscribers who receive health care services without knowledge that a provider has been debarred.] In addition, our debarments have been effective in support of the Public Health Service's efforts to obtain repayment of defaulted health education loans. Providers who are in default of their loan payments are excluded from Medicare, but for many, the FEHBP, as the largest employer-sponsored health insurance program in the country, provides a larger portion of their income.

Thus, in some instances, our common rule actions may reach defaulted providers in a way that Medicare exclusions do not. It has been reported to us that our debarments have dramatically improved the collectibility of the defaulted loans, and that they are a principal cause of the 1000 percent increase in repayments [to $12 million annually] since our debarment program began.

Question. What will this legislation do to assist your efforts?

Answer. The proposed "Federal Employees Health Benefits Provider Integrity Amendments of 1995" would simplify currently unworkable debarment procedures authorized under 5 U.S.C. §8902a, and enhance our efforts to remove dishonest or unqualified health care providers from the FEHBP. Currently, under that section, OPM is required to provide a formal hearing, if requested, before it can originally debar unfit health care providers from participation in the FEHBP. Because the costs and time involved in fully implementing those provisions do not justify the likely benefits, we have relied exclusively on the common rule and our appropriations language to remove FEHBP providers previously removed under Medicare and other Federal programs, thus sacrificing the opportunity to take original jurisdiction.

This new legislation would amend section 8902a to allow OPM to use informal procedures to debar providers and then offer adversely affected parties the ability to have a post-termination hearing and final review of OPM's decision in the Federal district courts. This informal procedure would be less burdensome to the agency and more efficient, since determinations can usually be made by reviewing documentary evidence. Furthermore, by eliminating untrustworthy providers at the outset instead of waiting until all appeals are exhausted, the incentive for the provider to delay and prolong the appeals process would be eliminated. In addition, the Administration's 1995 proposal provides more powerful methods to deter fraud in the FEHBP by authorizing imposition of financial assessments and double damages through civil monetary penalties. This would allow the Government to be reimbursed for losses suffered by improper provider conduct, as well as to strongly discourage fraudulent actions.

Question. Are there appropriate safeguards to protect innocent parties?

Answer. The legislative proposal incorporates all necessary due process protections to guard against the possibility that a provider who has not committed an actionable offense could become the subject of sanctions action. They are modeled on the procedural requirements of the Medicare sanctions law, which has been highly

effective in balancing due process requirements with the interests of programmatic efficiency. We could propose sanctions against providers only on the basis of evidence demonstrating that they had committed fraud or otherwise acted improperly with respect to Federal programs. They would have the right to notice of the basis for the proposed sanctions and, it would be our intention to provide them upon request, an opportunity to meet with the debarring official to respond to the charges and present arguments on their own behalf. Sanctions orders would be appealable in the Federal judicial system, but would remain in effect during pendency of any appeals.

While the foregoing relates to protection of providers who would be the subjects, or prospective subjects, of sanctions, it should be noted that the sanctions concept is intended principally to protect the two groups of innocent parties most at risk in respect to dealings with untrustworthy providers. These are the subscribers and dependents who obtain their health insurance coverage through FEHBP and the taxpayers who fund most of the premium costs. The legislative action which we are recommending would enable OPM, as the administrative entity for the FEHBP, to use sanctions as a means to remove unfit or unreliable care providers from participation in the program and to recoup program funds which may have been paid to fraudulent providers.

Question. What is the status of that proposal?

Answer. The proposed "FEHB Provider Integrity Amendments of 1995" were resubmitted to Congress on March 17, 1995. I regret to say that the Administration proposal has not been introduced in this Congress. The proposal had been originally submitted on June 24, 1994, and referred to the former House Committee on Post Office and Civil Service and the Senate Committee on Governmental Affairs, but no action was taken during the last Congress.

Question. The President's budget is proposing a reduction in funding for the Inspector General's office as well as a transfer from appropriated funds to reimbursement for a large portion of the funding. How will this impact the Inspector General's activities? Is this funding level going to be adequate to do the job?

Answer. The President's FY 1997 Budget requests a change in the source of funding for the OIG's operations. Since becoming a statutory entity in 1988, the OIG has been funded by 60 percent trust funds/40 percent general funds. For FY 1997, we are requesting that the source of funds be shifted to 90 percent trust funds/10 percent general funds, which more accurately reflects the nature of the work performed, which is principally audits of trust fund programs. Shifting the funding

allocation will enable us to correctly associate operational expenses with the trust funds. This proposal will not increase the total amount of resources available to the OIG, nor will it add any costs to the OPM or the taxpayer. Aside from the question of resource levels, this shift is appropriate and fully warranted, since the trust funds directly benefit financially from recoveries due to our audits and investigations.

The President's FY 1997 Budget also includes a $585,000 reduction in general funds, representing a 5.7 percent cut in total resources, consistent with reductions overall for OPM programs.

Any reduction in resources will further diminish our ability to provide adequate oversight of OPM's trust funds. This will result in increased audit cycles of the FEHBP carriers. The OIG recognizes the oversight of these funds to be its most significant challenge, and has concentrated its operating resources in functions that return funds to the Government. Working with very limited resources, the OIG has achieved an impressive record of cost effectiveness in combatting fraudulent activities. During the past 2 fiscal years, OIG's audit and investigative efforts have produced over $175 million in actual positive financial impact to the Government. This represents nearly $11 for each direct program dollar expended. Essentially all of this amount relates to the FEHBP, with a direct outcome of achieving reductions in insurance premiums.

QUESTIONS SUBMITTED BY SENATOR KERREY

OFFICE OF THE INSPECTOR GENERAL

Question. In FY 97 OPM proposes to fund the bulk of the IG's operational costs from the Trust Funds. Only $.960 million will be funded through the general appropriation.

The '97 budget for OIG totals $9.605 million and 106 FTEs or $.585 million and 5 FTEs less than the '96 level.

The OPM budget justification states that the reduction is being taken to share in the resource reductions being imposed on OPM. It further states that the reduction, which equals 5.7% "will reduce the OIG's ability to provide the oversight of OPM's programs that it believes is necessary."

The justification shows that in terms of workload, for '97, there will be 5 less audits of the Combined Federal Campaign, or a reduction of 1/2; there will be 16 less insurance audit reports or 28% less than in '96; $40 million less in audits involving questionable costs;

and no benefit program audits. Why are you proposing to shift the bulk of funding for operations of the OIG from the appropriated account to the limitation on transfers from Trust Funds?

Answer. The OIG is proposing that funding for its operations be shifted from the current 60 percent trust funds/40 percent general funds to 90 percent trust funds/10 percent general funds. The current funding allocation is the result of an estimate developed in 1988 at the time that the OIG became a statutorily mandated organization with a separate appropriation account. During the intervening 8 years, OIG operations have increasingly been devoted to trust-fund related activities, which represent the best opportunities for achieving optimal cost-effectiveness and programmatic impact.

For FY 1995, the OIG utilized approximately 90 percent of its direct program resources for trust fund oversight activities, including audits of Federal Employees Health Benefits Program (FEHBP) carriers, audits of trust fund financial statements, investigations of fraud in the retirement and health insurance programs, and administrative sanctions against FEHBP providers. Thus, because of the imbalance between funding sources and actual program activity, most of our general funds were used to support trust fund-related work.

The modification of funding allocations is warranted at this time for the following reasons:

1. Sound financial management practices would indicate that costs of oversight operations be charged to the funding source which is associated with the work being performed.

2. The trust fund work is highly cost-effective, having resulted in over $175 million of positive financial impact for the Government during the past 2 fiscal years. It is appropriate that the trust funds, which receive the benefit of the recovered monies, should be used to support the underlying work.

3. The OIG will be able to more effectively use its general funds to perform work related to non-trust fund activities if funding is provided in the proper general fund/trust fund ratio.

This proposal is budget neutral. The principal effect will be to finance the OIG's most cost effective activities through the proper fund source.

Question. Given the statistics in the budget justification showing that less insurance audits will be conducted, why are you proposing a reduction in the OIG budget for FY 97?

Answer. The purpose of the proposed reduction in the FY 1997 President's budget is to have the OIG share in resource reductions imposed on OPM. The reduction was proposed, without regard to the impact on audit and criminal investigative results, in order to achieve Federal budget targets. The OIG views its inability to audit all FEHBP carriers within a 5-year period, the length of time carriers are required to retain records, to be both its largest challenge and greatest problem.

Working with very limited resources, the OIG has achieved an impressive record of cost-effectiveness in combatting fraudulent activities. During the past 2 fiscal years, the Government has received positive financial impact in excess of $175 million as the result of the Inspector General's audit and investigative efforts. This amounts to nearly $11 for each direct program dollar expended. Fewer resources will directly impact on our ability to maintain this impressive record of recoveries in the future.

Question. The OIG is supposed to be independent. What is your OIG's reaction to this reduction?

Answer. OMB Deputy Director for Management John Koskinen addressed precisely this issue in remarks he made to the Inspectors General at a meeting of the President's Council on Integrity and Efficiency (PCIE) in 1995. His message was that, in times of budget deficit reduction when all Government organizations are impacted by fewer resources, the Offices of Inspector General must expect to incur decreases as well. At the same time, however, Mr. Koskinen emphasized that resource reductions in Inspector General organizations should not be used as a means of reprisal for policy differences between the IG and the agency or for the purposes of compromising their ability to operate independently. In Mr. Koskinen's view, the appropriateness of reductions assessed against IG's would depend in large measure on their proportionality to the reductions being incurred by the agency at large. There are, of course, any number of ways to judge proportionality, taking into consideration such factors as baseline resource levels, timing of reductions, treatment of different funding sources, and the like. OPM's OIG believes that its mission accomplishment will be hindered by the resource reductions, but concurs with Mr. Koskinen's viewpoint that the IG community must participate in cuts in discretionary spending in order to eliminate the deficit. Further, the OIG community is committed to providing the best service possible within its budgetary constraints.

Nevertheless, care should be taken that the budget reduction does not result in a net increase of costs to the Government. For example, any reduction in funding to provide oversight of the FEHBP would result in a net increase in Government costs because recoveries associ-

ated with audits of FEHBP carriers far exceed direct program costs. These recoveries translate into lower insurance premiums for both the Government agencies and Federal employees.

OFFICE OF THE INSPECTOR GENERAL
THE NEED FOR MORE RESOURCES

Question. The trust funds which support OPM's retirement and insurance programs are among the very largest held by the United States Government; their assets totaled $360.7 billion in FY 1994. The annual outlays from the funds averaged $74.3 billion in FY 1994. These outlays are made to millions of annuity recipients and hundreds of health insurance carriers nationwide.

Studies by law enforcement agencies, GAO, and industry groups have consistently projected that substantial amounts of annuity payments will reflect improper, inaccurate, or fraudulent payments.

The Office of the Inspector General realizes that oversight of these funds is a high priority. During the past two fiscal years, the government has recovered $175.6 million as a direct result of OIG's audit and investigative efforts. This represents $10.83 recouped for each direct program dollar that the OIG expended.

What percentage of the health benefit plans have not been audited within the last retention period (the period of time that contractual provisions and federal regulations stipulate that FEHBP administrative records must be retained) as a result of budgetary and staffing shortfalls in the OIG? Can you provide us with a dollar figure relating to this percentage?

Answer. As of this date, the last year to expire under the record retention clause of the FEHBP contracts was calendar year 1990. In 1990, 438 carriers were subject to audit. We have not audited 257 of the 438 carriers before expiration of the 5-year retention period. This represents approximately 59 percent of the carriers and 39 percent, or $4.5 billion, of the premium dollars.

Question. As a follow-up to the first question, how many FTEs does the Office of the Inspector General need to maintain a FEHBP audit cycle of 5 years, which is the period of time that contractual provisions and federal regulations stipulate that FEHBP administrative records must be retained?

Answer. The most recent estimates indicate that the OIG needs a total of between 60 and 66 insurance auditors to maintain a FEHBP audit cycle of five years. We have recently brought our insurance auditor strength

up to 38 through internal reallocation of staff, and we have reprogrammed vacancies from other OIG components to support hiring of four new auditors. However, given that OIG has incurred an approximate 22 percent reduction in on-board strength during FY 1994-1997, any additional reprogramming would be difficult.

Question. Within the last fiscal year, what percentage of Health Care Maintenance Organizations have not been the subject of oversight?

Answer. In FY 1995, there were 415 active Health Maintenance Organizations (HMO's) subject to audit. During FY 1995, we audited 15 of these plans which equates to 4 percent of the total. Therefore, 96 percent of the HMO's were not subject to audit oversight. Had we been on a five-year audit cycle, we would have expected to cover at least 20 percent of the carriers in any 1 year.

Question. What is the limit placed on the OIG for Health Care Maintenance Organization cases? Does this limit prevent the OIG from investigating a fairly high percentage of meritorious cases that could save the taxpayer money from waste, fraud, and abuse?

Answer. In February 1994, the OIG set a threshold of $7.5 million in potential recoveries on investigations of fraud identified in HMO carrier audits. It was determined that the same level of resources was required to investigate cases involving $1 million as was required to investigate cases involving $10 million. Since resources dictated the number of investigations that we could perform, we concentrated our efforts on the cases where the potential largest dollar recoveries existed.

From February 1994 to December 1995, we maintained an investigative backlog of audit findings involving HMO fraud totalling $108 million. While these audits were not presented to the Department of Justice, they were routinely referred to OPM program officials for resolution with the carrier.

Beginning April 1996, the OIG has modified its approach on referring HMO fraud to the Department of Justice. The insurance auditors who identify the fraud through the normal audit process will proceed directly to the Department of Justice with their findings. This will increase the total number of referrals for consideration. We will provide further investigative efforts upon request from the Department of Justice.

Question. Given the amount of dollars not being recovered as a result of inadequate numbers of audits, why would you propose further reductions in the OIG in FY 97? Is this good policy?

Answer. The FY 1997 President's budget proposes a budget reduction of $585,000 for the OIG. The purpose of this reduction is to have the OIG share in resource reductions imposed on OPM. The reduction was proposed, without regard to the impact on audit and criminal investigative results, in order to achieve Federal budget targets. Across-the-board reductions are not good policy. Budget reductions should consider the impact on program operations. The programs to which the OIG dedicates the vast majority of its resources in providing oversight and achieves its greatest monetary recoveries, the Federal retirement, health and life insurance programs, have not been targeted for reductions to this point. Therefore, reducing oversight of these programs places them at increased risk.

BLUE CROSS/BLUE SHIELD MAIL ORDER--CO-PAY ISSUE

Question. OPM renegotiated its contract with Blue Cross/Blue Shield for Fiscal Year 1996 which raised pharmacy copayments for Federal retirees at local pharmacies from 0% to 20%. The contract established no copayment for mail order prescriptions. As a result, Federal retirees are forced out of local pharmacies into mail order in order to avoid the copayments. Director King, I would assume that this new mail order prescription drug benefit in the Blue Cross/Blue Shield plans presents savings to the government, is that correct? Is this the reason it was chosen?

Answer. The change in the Governmentwide Blue Cross/Blue Shield (BC/BS) Standard Option prescription drug benefit is expected to save enrollees, not the Government, approximately $200 million in benefit costs. Without this change, the 1996 Standard Option premium would have cost an additional $65.04 annually for Self Only enrollments and an additional $144.36 annually for Self and Family enrollments. Since Standard Option enrollees already receive the maximum Government contribution under applicable law in 1996, these additional premium costs would have been borne entirely by all active and retired enrollees.

For 1996, the Standard Option prescription drug benefit requires retirees covered by Medicare Part B to pay the same coinsurance that all other Standard Option enrollees pay for drugs purchased at retail pharmacies. The $50/calendar year prescription drug deductible continues to be waived for Medicare Part B enrollees, as is the copayment when they use the Mail Order Drug Program. Because greater discounts are realized on purchases from the Mail Order Drug Program than from retail pharmacies, the 1996 prescription drug changes are intended to contain costs by encouraging greater use of the Mail Order Program by Medicare Part B-covered Standard Option enrollees. We concluded that BC/BS High Option drug benefits for Medicare Part B enrollees

should not change because the already higher premiums for that coverage made it possible to absorb additional drug costs without a premium increase.

The 1996 change in BC/BS Standard Option drug benefits affects only Plan members primarily responsible for the adverse prescription drug utilization trends, retired enrollees covered by Medicare Part B. It gives those enrollees an incentive and opportunity to make cost-conscious and judicious provider selections like other Standard Option enrollees.

We note that the mail-order prescription drug benefits for Federal Employees Health Benefits (FEHB) Program participants enrolled in the BC/BS plan did not change in 1996. Prior to 1996, retired FEHB enrollees in the BC/BS Plan for whom Medicare Part B is the primary insurer paid no deductibles or coinsurance on prescription drug purchases (unlike other BC/BS enrollees) whether the retirees obtained drugs from retail pharmacies or through the BC/BS Mail Order Drug Program. Unfortunately, this situation had the effect of encouraging Medicare Part B-covered enrollees to use the more costly (to the FEHB Program) retail pharmacies instead of the much less costly Mail Order Program. Indeed, prior to 1996, BC/BS enrollees with Medicare Part B coverage obtained only about 10 percent of their prescriptions by mail order while other enrollees purchased 80 percent of their prescriptions from that source. Since Medicare-covered enrollees use considerably more drugs than younger enrollees, the practice of waiving all cost-sharing requirements for Medicare enrollees was having a significant upward effect on premiums.

Question. Did OPM consult with caregivers and the benefit recipients prior to agreeing to this new mail order prescription benefit in this year's Blue Cross/Blue Shield contract?

Answer. OPM does not consult program beneficiaries, health care providers, or others who are not party to FEHB contracts as part of the benefit negotiation process. Applicable law intends for OPM to contract on behalf of Federal employees and annuitants for a range of comprehensive health plans which provide benefits consistent with practices among other large employers at a reasonable cost. We do, however, regularly meet and exchange ideas with administrators of other Federal health programs, insurance industry regulators, and health care purchaser groups. In addition, we make available to eligible FEHB enrollees the necessary information to make an informed choice among available health plans and an opportunity to switch health plan coverage before any change in contract benefits take effect. We also contract for an annual FEHB Customer Satisfaction Survey each Summer which asks a random sample of enrollees in each plan about their overall satisfaction and specifically about the plan's perfor-

mance on factors such as access to medical care, quality of care, physician availability, benefit levels, and customer service; data from the survey is incorporated into the enrollee guide for the annual Open Season for enrollment changes.

Question. If not, who did OPM consult with to ensure that the current mail order prescription drug "no-copay" plan represents good public health policy?

Answer. OPM believes that the 1996 BC/BS Standard Option prescription drug change represents good public health policy because it uses enrollee cost-sharing to appropriately control utilization. It saves money for FEHB enrollees by encouraging use of the mail-order drug program which is the least costly source of medication, as well as by encouraging without mandating use of generic drugs. The benefit structure preserves maximum enrollee choice with respect to available services while making the choice between retail pharmacy and mail-order drug programs cost-neutral to the FEHB Program.

The BC/BS Association proposed changing the prescription drug benefit under the Governmentwide Service Benefit Plan in the FEHB Program during negotiations with the OPM on 1996 benefits and premium rates. Drug costs are a significant part of the Plan's total benefit payout and, despite savings from implementation of the Preferred Retail Pharmacy Program in 1993, the recent trend for prescription drug benefits reflected a 20 percent annual increase. The carrier demonstrated that without a modification to the drug benefit, premiums would have to increase significantly. OPM did not accept the initial proposal in its entirety, but negotiated an agreement with the carrier on the prescription drug benefit change that was incorporated into the 1996 contract.

The FEHB Program is an integral component of Federal employee compensation. As administrator of this Program, OPM's primary responsibility is to contract for a variety of comprehensive health plans at a reasonable cost to assist the Government in successfully competing with other employers for well-qualified employees. Moreover, the fact that all FEHB plans must offer a comprehensive range of benefits, as well as the fact that each enrollee has a wide variety of plan choices and the opportunity to review benefit changes and to switch plans in advance of each new contract year, inherently encourages benefits which are consistent with good public health policy.

Question. Who did OPM consult with to ensure that the mail order "no-copay" plan represents quality service to the individual seeking to have a prescription filled?

Answer. The BC/BS Service Benefit Plan Mail Order Drug Program has been available under the FEHB Program since 1987 and has been very successful; our experience is that almost all enrollees who have used it like it. In Customer Satisfaction Surveys which Gallup conducted for BC/BS in 1994 and 1995, the Mail Order Program received ratings of 4.8 and 4.7, respectively, on a scale of 1 to 5 (with 5 being Very Satisfied); the Retail Pharmacy Program received ratings of 4.6 and 4.5, respectively.

To ensure that the quality of service from mail order would not diminish in the face of greater demand, OPM conducted on-site visits to observe procedures at processing facilities and then reviewed the carriers' plans for handling projected increases in volume. In addition, the BC/BS contract and enrollee brochure specify mail-order turnaround standards for acceptable service. For prescriptions ordered by phone or facsimile, the standard is that the order shall be processed within 2 business days so the enrollee may expect to receive the medication within 7 calendar days; the standard for mailed-in prescriptions is that the order shall be processed within 5 business days from the date of receipt so the enrollee may expect to receive the medication within 14 calendar days.

As it turned out, there was a huge and immediate shift to mail order by Medicare Part B-covered annuitants so that the demand for mail-order services doubled during January 1996, far exceeding the anticipated rate of increase and causing numerous service problems. When OPM became aware of this, we directed the Plan to take immediate action to remedy the situation and to provide weekly reports to OPM on the progress. BC/BS, in conjunction with its mail-order provider, Medco, responded by developing an aggressive operational strategy to increase processing capability and adequate capacity to meet FEHB customer service standards was achieved in a matter of weeks.

Question. How was the mail order contract awarded, was it competitively bid?

Answer. The BC/BS contract with National Rx (Medco) is a provider contract similar to the agreements between BC/BS and participating hospitals and doctors or preferred provider organizations. As a health plan purchaser, OPM does not review the details of arrangements health plans have with providers.

Question. How are Federal retirees responding to this new policy?

Answer. Results from the Gallup Customer Service Satisfaction Survey conducted for BC/BS for the first quarter of 1996 showed a decline in approval for the Mail Order Drug Program, but we expect to see approval

rebound in the second quarter data since the initial service problems have been addressed and the new Mail Order customers better understand how the program should work. OPM is continuing to monitor the program to ensure that the benefit is administered in compliance with our contractual requirements and enrollees' correspondence with OPM on this issue has dropped steeply. While OPM was certainly concerned when the 1996 BC/BS prescription drug benefit changes generated hundreds of complaints in the early weeks of 1996, it is important to recognize that those complaints represented less than one-seventh of 1 percent of the 810,000 Medicare Part B-covered annuitants and dependents enrolled under BC/BS Standard Option. Moreover, comments on the prescription benefit change were not all negative.

Question. Has OPM instituted a survey of federal retirees on this benefit, and if so, will it be completed before next year's contracts are negotiated?

Answer. OPM has awarded a contract to Gallup to survey FEHB enrollees in the five largest fee-for-service health plans (BC/BS, American Postal Workers Union Plan, Government Employees Hospital Association Plan, Mailhandlers Benefit Plan, and the National Association of Letter Carriers Plan) concerning satisfaction with prescription drug benefits. The survey is scheduled to be completed in time to consider the results during negotiation of 1997 benefits.

Question. Were any other options considered by OPM that could achieve a cost savings, other than the mail order policy now in effect?

Answer. BC/BS proposed changing the prescription drug benefit under the Governmentwide Service Benefit Plan during negotiations on 1996 benefits and premium rates. In 1994, 21 percent of the Plan's total costs were for prescription drugs and, despite savings from implementation of the Preferred Retail Pharmacy Program in 1993, the latest trends for prescription drug benefits reflected a 20 percent annual increase. The carrier demonstrated that without a modification to the drug benefit, premiums would have to increase significantly. OPM did not accept the initial proposal in its entirety, but negotiated an agreement with the carrier on the prescription drug benefit change that was incorporated into the 1996 contract.

Other changes which the carrier proposed and OPM considered were to increase the coinsurance percentage paid by all Standard Option enrollees, including those covered by Medicare Part B, at both preferred and non-preferred retail pharmacies, and to require BC/BS High Option Plan members with Medicare Part B to pay the coinsurance paid by other High Option enrollees at both preferred and non-preferred pharmacies.

OPM did not accept either of those proposals. We concluded that the coinsurance for all Plan members under Standard Option should not increase when utilization data indicated that 61 percent of the Plan's costs for prescription drugs were incurred by retired members with Medicare Part B as primary coverage who, in the absence of any coinsurance requirement, used more costly retail pharmacies for 90 percent of their prescriptions. These utilization trends were the opposite of those of other Plan members. We further concluded that the High Option benefit should not change because the already higher premiums for that coverage made it possible to absorb the additional costs without a premium increase.

The change we agreed to affects only that portion of the Service Benefit Plan membership that is primarily responsible for the significant adverse prescription drug utilization trends. It gives them an incentive and opportunity to make cost-conscious and judicious provider selections like other Standard Option enrollees. We believe that Medicare Part B-covered retirees who are judicious in the selection of providers and pharmaceutical products will experience minimal, if any, increases in out-of-pocket expenses. The principle of some cost-sharing is an important element in OPM's comprehensive effort to keep the rate of FEHB premium increases as low as possible.

Question. What steps can OPM take to minimize the adverse impacts on the elderly beneficiaries as a result of this mail order policy?

Answer. The Governmentwide Service Benefit Plan's 1996 prescription drug benefits change occurred in retail pharmacy, and not mail-order, benefits under Standard Option. For prescription drugs obtained from a retail pharmacy, the enrollee coinsurance will no longer be waived for retired enrollees for whom Medicare Part B coverage is primary. These enrollees must now pay 20 percent coinsurance at a Preferred Retail Pharmacy and 40 percent at a non-preferred pharmacy, the same as any other Standard Option enrollee, although the Plan will continue to waive the $50 annual prescription drug deductible for them. Standard Option retirees with Medicare Part B continue to have 100 percent coverage for prescriptions obtained through the Mail Order Prescription Drug Program.

There is no intrinsic adverse impact on elderly enrollees with this change. If a Standard Option member chooses not to use mail order, or in those instances when a drug is needed immediately, the member may use the Retail Pharmacy Program. The Plan's negotiated prices on drugs obtained through Preferred Pharmacies result in low costs even with the 20 percent coinsurance. In 1994 (the most recent year for which cost data is available), the average cost to the member for prescriptions obtained at a Preferred Retail Pharmacy was

$2 per 30-day supply for generic drugs and $6.30 per 30-day supply for brand-name drugs. Furthermore, if a "no cost-sharing" prescription drug benefit is a significant factor to an individual in the choice of health insurance, there are a number of FEHB plans open to all enrollees that offer this feature under Preferred Retail Pharmacy Programs. We wish to note, though, that the trend in recent years has been away from waivers of cost-sharing provisions in most plans, for reasons similar to those that prompted the Service Benefit Plan change.

The early weeks of 1996 demonstrated how unanticipated demand may interrupt regular mail-order service and complaints on behalf of enrollees confined to nursing homes alerted OPM to the fact that the mail-order Program was not a viable option for those individuals. OPM promptly directed the plan to extend special considerations, which have since been formalized by amendments to the Plan's FEHB contract, to eliminate enrollee hardship in these situations. One amendment provides that if an enrollee for whom Medicare Part B is primary coverage submits evidence of confinement in a nursing home, the coinsurance under Standard Option will be waived for prescriptions filled at a Preferred Retail Pharmacy, including a long-term care network pharmacy; if a non-preferred pharmacy is used, the enrollee coinsurance will be 20 percent of billed charges. A second contract amendment provides that whenever there is a likelihood that the contractual customer service standards for the Mail Order Drug Program will not be met, the Plan must provide instructions to the enrollee within the service standard timeframe to enable the enrollee to obtain a 21-day supply of medication at a Preferred Retail Pharmacy at no cost. The Plan is also authorized to use overnight delivery services when necessary to meet the service standards at no cost to the enrollee.

In summary, OPM believes that our directions to BC/BS regarding the implementation of the Governmentwide Service Benefit Plan's 1996 prescription drug change, decided in the context of balancing costs against benefit provision, were in the best interests of all BC/BS enrollees. We are continuing to monitor the carrier's performance to assure that the benefit is administered in compliance with our contractual requirements. If individuals need assistance with a specific problem, OPM is happy to work with them to ensure they get the services to which they are entitled.

LEGISLATION PROPOSED FOR LATER TRANSMITTAL

Question. The OPM budget for the Payment to the Civil Service Retirement and Disability Fund is expected to decline by $22.876 million due to the enactment of legislation to increase retirement contributions, and

delay cost-of-living adjustments to retirees in FY 96 and beyond. What is the status of this legislation and what impact will it have on retirement plans?

Answer. The legislative proposal to implement the President's balanced budget plan, including changes in Federal employee retirement, was transmitted to the Congress on May 24, 1996. Although it is difficult to estimate the influence of the proposed changes on the plans of retirement-eligible Federal employees, we do not anticipate that the relatively modest increase in retirement contributions or the continuation of the COLA delay will be sufficient to alter the plans of most individuals.

GOVERNMENT DOWNSIZING

Question. President Clinton's proposal to downsize Government by 272,000 FTEs is supposed to be achieved by the close of FY 99. At the end of FY 95, OMB states there was a net 185,000 FTE reduction; at the end of '96 the Administration is estimating a 204,000 FTE reduction. The buyout authority would appear to greatly help certain agencies which are having difficulty reducing staffing levels despite attrition. What do you believe are the potential costs of this legislation?

Answer. It is difficult to compare or define the specific cost of a buyout and a RIF because the two actions are very dissimilar. The actual costs of each action vary based on the profile of the employee being separated, whether or not other employees are displaced, etc.

GAO has recently concluded that buyouts could generate over $60,000 more in net savings than RIF's (involving bumping and retreating) for each position vacated over a 5-year period. However when no bumping or retreating takes place, RIF's can generate up to $22,000 more in net savings over buyouts over a 5-year period. GAO also notes that each RIF typically creates at least one bump or retreat action.

In June 1995, the Congressional Budget Office said that, with buyouts, "the Government saves <u>2 to 5 times</u> the near-term costs by the fifth year and 12 to 33 times by the 30th year." (Budgetary Program Newsletter, June 2, 1995).

Additional related costs could take the price tag on RIF even higher. Relocation and outplacement can cost roughly $30,000 and $5,000 per employee, respectively.

Question. Can you give us some examples of agencies which might be approved for this authority?

Answer. It is too early to project what Fiscal Year 1997 budget levels for individual agencies will look like. Thus, it is hard to predict which agencies may be approved for buyouts. However, the President's budget estimates reductions (in FTE levels) for 20 agencies by FY 1997. Among these are Energy, NASA, Veterans Affairs, OPM, Railroad Retirement, Small Business Administration, GSA, etc.

It is essential to point out, however, that other agencies may see budget marks which will require staff reductions regardless of the approved FTE level. We cannot be sure which of these may be approved for buyout use.

Question. Would it apply to agencies facing forced moves or reductions-in-force in certain program areas?

Answer. Buyouts under this proposal would be targeted.

When an agency head determines that employment must be reduced to improve operating efficiency or meet budget levels, the agency may submit a plan to the Director of the Office of Management and Budget requesting authority to offer voluntary separation incentives to agency employees. The plan (and approval of the plan) will specify the time period for the program and the target of coverage based on organization, occupation, and geography.

OMB may approve or disapprove each plan, and may modify the time period and coverage of offers to target specific cuts.

Since the proposed law would require full-time equivalent employment in the agency to be reduced by one for each employee who receives an incentive, cuts will be real and targeted to the reducing agency.

Question. Under the previous buyout authority, how much do you estimate was spent on employee buyouts?

Answer. Under the previous buyout authority, we estimate agencies paid out about $750 million in buyout payments from funds already appropriated for the payment of employee salaries. No additional money was appropriated for the payment of buyouts under this program.

Buyout payments also triggered other fund transfers within Government. For example:

- Approximately 30 percent of each buyout payment ($250 million) was withheld for Federal income taxes.

- Agencies paid the Civil Service Retirement and Disability Fund 9 percent of the

final salary of each Civil Service Retirement System (CSRS) early retiree who took a buyout ($100 million).

- In Fiscal Years 1995 through 1998, all agencies will pay into the General Treasury fund a sum equal to $80 for each CSRS or Federal Employees' Retirement System employee on the agency's roles as of March 31st of each fiscal year.

The General Accounting Office released a report in May 1996, which concluded that, except in some rare cases, over a 5-year period buyouts generate nearly $60,000 more in savings than a separation by reduction in force. Based on the findings in the May 1996 GAO report, it is estimated that the 32,000 non-Defense buyouts paid between March 1994 and September 1995, will generate nearly 8.6 billion in savings from unspent salaries over the next 5 years.

ESTIMATE OF AMOUNT SPENT ON NON-DEFENSE VOLUNTARY SEPARATION INCENTIVE PAYMENTS AND POSSIBLE 5-YEAR NET SAVINGS

Non-Defense buyouts only
Number paid from March 30, 1994, through September 30, 1995
5-year cumulative net savings is based on GAO Report entitled "The Costs and Savings of Buyouts Versus Reductions-in-Force
5-year cumulative net savings is estimated based on December 31, 1994, separation date

	Number of Buyouts Paid	Average Payment	Estimate of Total Spent	5-Year Cumulative Net	Combined Net Savings (savings includes cost of buyouts)
Regular Retirement	16776	$24,562	$412,052,112	$284,720	$4,776,462,720
Early Retirement	12023	$24,799	$298,158,377	$253,217	$3,044,427,991
Resignation	2916	$14,231	$41,497,596	$203,509	$593,432,244
Other**	1019		$25,270,181		$207,375,671
All Buyouts	32734				
	TOTAL		$776,978,266		$8,621,698,626

** Includes 958 actions that could not be matched to a separation action. Estimate assumes maximum average payment and minimum average savings.

Buyouts simply cost less and save more than RIF's.

FERS AUTOMATED PROCESSING SYSTEM

Question. OPM is developing a FERS Automated Processing System (FAPS) to modernize its retirement and insurance service record keeping and processing system. In FY 97, a reduction of $7.8 million for the system is

being proposed to permit OPM to review and evaluate the program. Prior year unobligated balances of $9.450 million will support the program in FY 97. In addition OPM is proposing a reduction of 14 FTEs from savings due to the first phase of the document imaging project underway in Boyers, PA. How much money has been obligated to date for the FAPS?

Answer. Through the end of FY 1995 a total of $34.3 million had been obligated for FAPS since its first no-year appropriation in FY 1989. We will obligate an additional $9.6 million during FY 1996.

Question. Your justification states that while no appropriation is requested in FY 1997, you do expect costs to recur in '98 and beyond. Can you explain why these costs will recur in the outyears and what specifically the funds will be used for?

Answer. The decrease in FY 1997 funds reflects a decision to reevaluate the FAPS project during FY 1996 to ensure it is positioned to take advantage of recent technological improvements. The project will return to full performance levels during FY 1996, but unobligated balances will be sufficient to fund the project through the end of FY 1997. We project that at the end of FY 1997 appropriated funds for the project will be exhausted, and our FY 1998 appropriation request will therefore reflect a full year of funding.

Although we have not yet determined our actual FY 1998 funding requirements, in FY 1998 we will continue development of the system software modules, install the next phase of the hardware and software platforms, maintain previously delivered software and hardware, and train users on the new system.

Question. When will this system be fully operational?

Answer. The latest proposal received from the FAPS contractor shows that the final phase of application development will be completed and ready for implementation in Fiscal Year 1999. Software maintenance by the contractor will continue as long as one year after full system implementation. Also, conversion of agency individual retirement data to a centralized database at OPM is presently scheduled for completion in late FY 1998.

REVOLVING FUND

Question. In '97 OPM is requesting an appropriation of $5 million to supplement the Revolving Fund to cover deficits in the Fund. The justification states this appropriation is required to cover the costs of the investigative services until they are privatized through an ESOP contractor. What is the transition period you

expect until all investigations are turned over to the new USIS, Inc.?

Answer. On July 7, 1996, all investigations in process will be turned over to USIS for completion. There will be no interruption to the service we provide our customer agencies who will still send case requests to OPM. There will really be no transition period for this startup.

Question. What are the costs to OPM during this period?

Answer. The costs to OPM for privatization through an ESOP are as follows:

Severance pay	$8.4 million
Feasibility study	$ .1 million
Cost Benefit Study	$ .1 million
Trustee Contract	$ .5 million
Total	$9.1 million

Question. What is the current deficit situation with regard to the Revolving Fund?

Answer. As of March 1996, the retained deficit in OPM's revolving fund was $16.7 million. This figure will change before the end of FY 1996, due to the up-front costs resulting from the privatization of the investigations program.

Question. If this $5 million is provided, will it ensure that you will not become anti-deficient in this account?

Answer. The preamble to the first question on the Revolving Fund is incorrect in characterizing the appropriation request of $5 million for the Revolving Fund as being "required to cover the costs of the investigative services until they are privatized through an ESOP contractor." OPM has already taken action to ensure that the Revolving Fund does not violate the Anti-deficiency Act. The following is the justification for the request of $5 million for the Revolving Fund:

"OPM reversed a ten-year trend of higher deficits in its Revolving Fund by imposing tough management decisions, tighter financial controls across all programs, increased accountability, and downsizing. In FY 1997, $5,000,000 in budget authority is requested to help reduce the accumulated Revolving Fund deficit remaining after the privatization of the training and investigations programs. No additional outlays will be incurred with this budget authority, which will be applied to the retained deficit that totaled $33.7 million at the end of FY 1995."

Question. What level of activity and reimbursement are you anticipating with the Revolving Fund in FY 97 once the investigations are turned over to USIS?

Answer. OPM expects approximately the same level of background investigations and reimbursement as we are experiencing in FY 1996. Other Revolving Fund activities are unaffected by the privatization of investigations.

PRIVATIZATION OF INVESTIGATIONS

Question. In FY 1996, OPM proposed the privatization of its background investigations service conducted for other Federal agencies. Language in the FY 1996 bill prohibited OPM from instituting a reduction-in-force to effect the privatization prior to March 31, 1996. In addition, the Senate report required GAO to conduct a review of OPM's plans to shift this service to an Employee Stock Ownership Plan and review the integrity of investigations through contracted-out services.

OPM would contract with newly formed Employee owned organization to conduct the background and security checks.

GAO reviewed the quality of employee background investigations to ensure there would be sufficient mechanisms to ensure oversight for quality performance.

The provisions in the proposed OPM contract provide that OPM would maintain some responsibility for ensuring quality investigations by the new ESOP entity. It would require background checks on the new organization employees and require OPM's current investigation handbook to be used in the conduct of investigations.

OPM entered into the ESOP contract with US Investigations Services, Inc. on April 12, 1996. USIS will make offers to all of OPM's Investigations Service 690 employees.

OPM studies indicate that this private contract would save the Government about $20-$25 million per year.

OPM will maintain a small staff to make policy determinations, ensure the quality of the investigations, maintain the security of the records system, and administer the contract between OPM and USIS.

Can you please explain in detail the role OPM will continue to play in overseeing the USIS contract? How many employees will OPM retain for this purpose?

Answer. OPM will retain a total of approximately 40 personnel to manage the ESOP contract, set investiga-

tions policy, and provide continuing oversight of agencies' security operations.

OPM will have personnel to control the security of the Personnel Investigations Processing System (PIPS) automated system and ensure integrity of the data base which will be accessed by the contractor.

Question. Specifically, how will OPM ensure quality investigations by USIS?

Answer. OPM is requiring the ESOP company to adhere to OPM's quality standards and establish a quality assurance program approved by OPM. Cases completed by the contractor will also be subject to the same sort of review we perform on investigations conducted by other agencies' personnel or other private sector contractors who now perform this work for agencies under delegated authority from OPM.

Question. When will this service be initiated by USIS? What are your plans for transition of the current OPM employees to this new organization?

Answer. USIS will begin operations on July 7, 1996. We issued RIF notices to affected employees on May 1, 1996. On May 2, USIS sent job offers to all employees who received a RIF separation notice. The offers were at current salary and duty location.

Question. Do you have any indication of how many OPM employees will leave to go to USIS?

Answer. 681 OPM employees who received RIF separation notices have accepted positions with USIS which represents over ninety-six percent (96%) of the affected employees.

Question. Can you please explain the process whereby USIS employees will be permitted to gain access to Federal law enforcement information for purposes of conducting background checks? How will you deal with Privacy Act violations?

Answer. OPM will continue to be the requestor of Federal law enforcement information from the FBI. In fact, the Bureau wanted assurance by OPM that it would continue to be the link to them for access to these records. The personnel actually requesting these records from our Federal Investigations Processing Center (FIPC) in Boyers, Pennsylvania, will be USIS employees acting as agents of OPM. We have been having extensive dealings with the Bureau on this issue and do not foresee any difficulty in continuing to have access to this information.

Release of information to requesters will be controlled by OPM. Remaining OPM employees found in violation of the Privacy Act will be subject to sanctions of the Act. Contractor personnel who violate that Act will be prohibited from performing work under the contract with OPM.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

BLUE CROSS/BLUE SHIELD PRESCRIPTION DRUG BENEFIT

Question. How did OPM approve the BC/BS policy? Who did OPM consult with to ensure that the plan represents good public health policy?

Answer. The Blue Cross and Blue Shield (BC/BS) Association proposed changing the prescription drug benefit under the Governmentwide Service Benefit Plan in the Federal Employees Health Benefits (FEHB) Program during negotiations with the Office of Personnel Management (OPM) on 1996 benefits and premium rates. Drug costs are a significant part of the Plan's total benefit payout and, despite savings from implementation of the Preferred Retail Pharmacy Program in 1993, the recent trend for prescription drug benefits reflected a 20 percent annual increase. The carrier demonstrated that without a modification to the drug benefit, premiums would have to increase significantly. OPM did not accept the initial proposal in its entirety, but negotiated an agreement with the carrier on the prescription drug benefit change that was incorporated into the 1996 contract.

The FEHB Program is an integral component of Federal employee compensation. As administrator of this Program, OPM's primary responsibility is to contract for a variety of comprehensive health plans at a reasonable cost to assist the Government in successfully competing with other employers for well-qualified employees. Moreover, the fact that all FEHB plans must offer a comprehensive range of benefits, as well as the fact that each enrollee has a wide variety of plan choices and the opportunity to review benefits changes and to switch plans in advance of each new contract year, inherently encourages benefits which are consistent with good public health policy.

OPM believes that the 1996 BC/BS Standard Option prescription drug change represents good public health policy because it uses enrollee cost-sharing to appropriately control utilization. It saves money for taxpayers and FEHB enrollees by encouraging use of the mail-order drug program which is the least costly source of medication, as well as by encouraging without mandating use of generic drugs. The benefit structure preserves maximum enrollee choice with respect to available services while making the choice between retail pharmacy

and mail-order drug programs cost-neutral to the FEHB Program.

Question. Who did OPM consult with to ensure that the plan represents the same quality of service?

Answer. The BC/BS Service Benefit Plan Mail Order Drug Program has been available under the FEHB Program since 1987 and has been very successful; our experience is that almost all enrollees who have used it like it. In Customer Satisfaction Surveys which Gallup conducted for BC/BS in 1994 and 1995, the Mail Order Program received ratings of 4.8 and 4.7, respectively, on a scale of 1 to 5 (with 5 being Very Satisfied); the Retail Pharmacy Program received ratings of 4.6 and 4.5, respectively.

To ensure that the quality of service from mail order would not diminish in the face of greater demand, OPM conducted on-site visits to observe procedures at processing facilities and then reviewed the carriers' plans for handling projected increases in volume. In addition, the BC/BS contract and enrollee brochure specify mail-order delivery standards for acceptable service. For prescriptions ordered by phone or facsimile, the standard requires processing within 2 business days so the enrollee may expect to receive the medication within 7 calendar days; the standard for mailed-in prescriptions requires processing within 5 business days from the date of receipt so the enrollee may expect to receive the medication within 14 calendar days.

As it turned out, there was a huge and immediate shift to mail order by annuitants so that the demand for mail-order services doubled during January 1996, far exceeding the anticipated rate of increase and causing numerous service problems. When OPM became aware of this, we directed the plan to take immediate action to remedy the situation and to provide weekly reports to OPM on the progress.

BC/BS, in conjunction with its mail-order provider, Medco, responded by developing an aggressive operational strategy to meet member expectations and service standards. By the end of the first week in February, they (1) hired additional pharmacists; (2) increased the capacity to receive telephone and faxed prescriptions; (3) increased the number of sites filling prescriptions for the Plan; (4) increased the number of telephone customer service representatives so that individual problems could be resolved expeditiously; (5) put a system in place to notify members if their prescriptions would not be received within the service standard timeframes; (6) developed a way to waive applicable coinsurance and/or deductibles for emergency 21-day prescriptions filled at Preferred Retail Pharmacies when the Mail Order Program could not fill the prescriptions within the service standard timeframes; and (7) expedit-

ed delivery of prescriptions by using overnight mail service for late prescriptions at no charge to the members. The Plan further agreed to restore the coinsurance waiver on prescriptions filled at a Preferred Retail Pharmacy (including a long-term care network pharmacy) for enrollees who have Medicare Part B as primary coverage and submit evidence of confinement in a nursing home.

Question. How was the mail order contract awarded -- was it competitively bid?

Answer. The BC/BS contract with National Rx (Medco) is a provider contract similar to the agreements between BC/BS and participating hospitals and doctors or preferred provider organizations. As a health plan purchaser, OPM does not review the details of arrangements health plans have with providers.

Question. How does OPM calculate the savings they say this plan will achieve?

Answer. The Office of Personnel Management estimated that the changes in the BC/CS drug benefit for 1996 would result in savings of $198.1 million in the first year of implementation.

OPM projected that the cost of mail-order drugs for Medicare-eligible annuitants would be $164 million in 1996 without the benefit change and we assumed that the change would result in another $164 million of drugs that previously were purchased from the retail pharmacies now being purchased through mail order, for a total of $328 million. We further assumed a restructuring of the discount under the Mail Order Program as a result of the increased business. The new mail-order contract is assumed to save 16 percent over retail pharmacy costs on business of $328 million, or $52.5 million.

We also assumed that 20 percent of the prescriptions transferred to mail order will also be shifted to generic drugs. This is expected to save 60 percent of non-generic drug costs or $19.7 million ($164 mil. x .2 x .6).

A total of $34.4 million savings was projected to accrue from reduced utilization. This reduction was assumed to occur at the retail level where the Medicare-eligible retired enrollees would be paying coinsurance. [Claims data for 1994 showed that among Standard Option Self Only enrollees age 65 or older an average of 23.2 prescriptions were filled for enrollees with Medicare Part B who paid no coinsurance under Standard Option, while the others had an average of 14.9 prescriptions filled.]

The largest component of savings was expected to accrue from the imposition of the 20 percent coinsurance

on drugs obtained at retail pharmacies. This money, however, will still be income to the retail pharmacists even though it is no longer paid under the FEHB Program.

Prescription Drug Savings (in millions)

Savings from discount on doubled mail-order volume	$ 52.5
Savings from new mail-order drugs in generic	19.7
Savings from reduction in prescriptions filled	34.4
Savings from collection of 20 percent	19.5
Total savings	$198.1

Question. What other options were considered by OPM to achieve cost savings?

Answer. Other changes which the carrier proposed and OPM considered were to increase the coinsurance percentage paid by all Standard Option enrollees, including those covered by Medicare Part B, at both preferred and non-preferred retail pharmacies, and to require BC/BS High Option Plan members with Medicare Part B to pay the coinsurance paid by other High Option enrollees at both preferred and non-preferred pharmacies.

OPM did not accept either of those proposals. We concluded that the coinsurance for all Plan members under Standard Option should not increase when utilization data indicated that 61 percent of the Plan's costs for prescription drugs were incurred by retired members with Medicare Part B as primary coverage who, in the absence of any coinsurance requirement, used more costly retail pharmacies for 90 percent of their prescriptions. These utilization trends were the opposite of those of other Plan members. We further concluded that the High Option benefit should not change because the already higher premiums for that coverage made it possible to absorb the additional costs without a premium increase.

The change we agreed to affects only that portion of the Service Benefit Plan membership that is primarily responsible for the significant adverse prescription drug utilization trends. It gives them an incentive and opportunity to make cost-conscious and judicious provider selections like other Standard Option enrollees. We believe that retirees with Medicare Part B who are judicious in the selection of providers and pharmaceutical products will experience minimal, if any, increases in out-of-pocket expenses. The principle of some cost-sharing is an important element in OPM's comprehensive effort to keep the rate of FEHB premium increases as low as possible.

Question. What options were considered that would preserve choice for retirees?

Answer. The only change in the BC/BS Service Benefit Plan's prescription drug benefit for 1996 is that the enrollee coinsurance for prescription drugs obtained from a retail pharmacy will no longer be waived in cases of retired Standard Option enrollees who have primary coverage under Medicare Part B. These enrollees will now pay the same coinsurance as all other Standard Option enrollees for drugs dispensed through retail pharmacies. Applicable coinsurance will continue to be waived for Standard Option enrollees who have Medicare Part B as primary coverage when they use the Mail Order Prescription Drug Program and the $50 annual prescription drug deductible will continue to be waived for these retirees, so mail order still offers a source of "free" prescription drugs. The plan was able to avoid changing benefits for maintenance drugs purchased through the Mail Order Program because of the significant discounts achieved through that program. Also, the BC/BS High Option drug benefits did not change.

If a Standard Option member chooses not to use mail order, or in those instances when a drug is needed immediately, the member may use the Retail Pharmacy Program. The Plan's negotiated prices on drugs obtained through Preferred Pharmacies result in low costs even with the 20 percent coinsurance. In 1994 (the most recent year for which cost data is available), the average cost to the member for prescriptions obtained at a preferred retail pharmacy was $2 per 30-day supply for generic drugs and $6.30 per 30-day supply for brand-name drugs.

Moreover, during the annual Open Enrollment Period, Federal employees and retirees receive comparative information on all available plans for the following year and all current enrollees automatically receive a new brochure from their plan which identifies major benefit changes. Enrollees who are dissatisfied with any change in their current plan have an opportunity to choose alternative coverage prior to the effective date of plan changes. If a "no cost-sharing" prescription drug benefit is a significant factor to an individual in the choice of health insurance, there are a number of FEHB plans open to all enrollees that will fill that need.

Question. Was the pharmacy community consulted on how to achieve cost savings?

Answer. Prescription drug benefits are but one component of a comprehensive health benefits package and it is not our practice to consult affected health care providers on each FEHB plan's benefit changes. The FEHB law intends for OPM to contract on behalf of Federal employees and annuitants for a wide range of comprehensive

health plans which provide benefits consistent with practices among other large employers at a reasonable cost. Cost containment initiatives are an integral part of bilateral negotiations between OPM and insurers each year.

Question. How are Federal retirees responding to this plan? Have retirees been surveyed?

Answer. Results from the Gallup Customer Service Satisfaction Survey conducted for BC/BS for the first quarter of 1996 showed a decline in approval for the Mail Order Drug Program, but we expect to see approval rebound in the second quarter data since the initial service problems have been addressed and the new Mail Order customers better understand how the program should work. While OPM was certainly concerned when the 1996 BC/BS prescription drug benefit changes generated hundreds of complaints in the early weeks of 1996, it is important to recognize that those complaints represented less than one-seventh of 1 percent of the 810,000 Medicare Part B-covered annuitants and dependents enrolled under BC/BS Standard Option. Moreover, comments on the prescription benefit change were not all negative and OPM's correspondence on this issue has dropped steeply.

Using the Gallup Organization, OPM is surveying enrollees in the five largest fee-for-service FEHB plans who have used their plan's prescription drug benefits in the preceding 3 months to compare customer satisfaction with services provided by retail pharmacy and mail-order drug programs. We believe information from this survey will assist us in better monitoring services to FEHB enrollees throughout the year and in considering benefits design options for next year.

Question. Are you doing a survey before next year's contracts are negotiated? If no survey is planned, why not?

Answer. As mentioned in response to the previous question, OPM has awarded a contract to Gallup to survey FEHB enrollees in the five largest fee-for-service health plans (BC/BS, American Postal Workers Union Plan, Government Employees Hospital Association Plan, Mailhandlers Benefit Plan, and the National Association of Letter Carriers Plan) concerning satisfaction with prescription drug benefits. The survey is scheduled to be completed and analyzed in time to consider the results during this year's negotiations with carriers.

Also, each summer, OPM contracts for a random sample survey of enrollees which is conducted in cooperation with participating FEHB plans for purposes of determining enrollees' overall satisfaction with their FEHB plans. We recently awarded a competitively bid contract to the Gallup Organization for the 1996 survey. It asks enrollees about five factors, including access to care, quality of care, doctor availability, benefits

coverage, and plan administration (enrollee information, customer service, and paperwork). We publish the results of the Customer Satisfaction Survey in the FEHB Guide in the Fall to assist individuals with health plan choice during the Open Enrollment Period.

NACDS POLICY OPTIONS

Question. Attached are policy options compiled by the National Association of Chain Drug Stores (NACDS). Please comment on the following: What are your thoughts on these recommendations overall?

Answer. In August 1995, BC/BS negotiated a new contract for mail-order drugs which has resulted in substantial savings even with a waiver of coinsurance for Medicare enrollees. OPM projects that the 1996 savings on each prescription filled through the Mail Order Program rather than through retail pharmacies will far exceed the 5.8 percent discount in the NACDS analysis. In addition, the BC/BS Service Benefit Plan currently uses generic substitution as a cost-saving measure. By submitting a prescription to the Mail Order Program or to a Preferred Retail Pharmacy, the enrollee is authorizing the provider to substitute a Federally-approved generic equivalent, if available, unless the enrollee or the physician specifically requests a name brand. Generic substitution has been a part of the BC/BS prescription drug benefit for many years.

Prescription drug benefits for the 1997 FEHB contract year will be determined in the course of bilateral negotiations between OPM and the health plan carrier. We will continue to review the latest data and experience but, of course, will be unable to comment on next year's benefit while negotiations are in progress.

Question. What effect would the patient copayment recommendations offered here have on the cost savings sought by OPM?

Answer. We have long believed that some cost sharing is an important element in our comprehensive effort to keep the rate of FEHB premium increases as low as possible. As indicated earlier, BC/BS Standard Option prescription benefit data from 1994 for retired enrollees age 65 or older with and without Medicare Part B shows substantially higher utilization among those for whom all copayment was waived because they had Part B coverage. But, coinsurance must be designed with a view to both discouraging unnecessary utilization as well as encouraging plan members to seek the most cost-effective service appropriate to their needs.

Question. What are the possibilities for implementing generic and alternative drug incentives into the program?

Answer. OPM always welcomes proposals to make the FEHB Program more cost-effective. However, we believe a program to encourage use of least costly drugs must preserve choice for enrollees, that is, while incentives may be used to encourage enrollees and providers to use generic drugs and alternatives, name-brand drugs should also be covered.

Question. What effect would these recommendations have on the quality of service for Federal retirees?

Answer. The NACDS recommendations would require Federal retirees to pay more depending on their personal preferences--all would pay more for brand-name drugs and those who are already using less costly mail-order drug benefits would become responsible for some type of copayment.

COST CONTAINMENT AND QUALITY OF CARE POLICY OPTIONS FOR BLUE CROSS/BLUE SHIELD (BC/BS) FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM (FEHBP) PRESCRIPTION DRUG PLAN

1. Make Cost Containment Mechanisms Proportional to Program Expenditures

In 1994, the BC/BS FEHBP prescription drug program expenditures totalled $1.2 billion. Of this amount, $900 million or 75 percent was spent for manufacturers' prescription drug products, while $300 million, or 25 percent, was spent for pharmacy dispensing fees.

According to BC/BS's own numbers, cost containment mechanisms in the program saved $328 million in that year. However, the overwhelming proportion of these cost savings – over 60 percent, or about $200 million -- came from pharmacies. At most, only 31 percent, or about $100 million, came from cost containment on drug manufacturers.

The cost containment ratios are totally skewed. The majority of the cost containment is coming from pharmacies, yet they only represent the minority of the program's costs. BC/BS should institute mechanisms to better control drug manufacturers' costs, which are responsible for most of the program's expenditures.

2. Implement Patient Copayments

Patient prescription copays help to lower overall program costs and promote appropriate utilization of prescription drugs. Copays result in a higher utilization of lower-priced generic drugs and an overall lower utilization of prescription drugs in general, since consumers are unlikely to over utilize prescription drugs when they have to pay part of the cost out of pocket.

The lack of any copayment on the BC/BS FEHBP mail order program will likely result in inappropriate drug use and higher overall health care costs:

- the Federal retiree has every incentive to ask for more prescription drugs than are needed because there is no cost sharing; in essence, the prescription is free. This could create a problem of multiple medication use in an elderly population which already uses too many prescriptions;

- the Federal retiree has no incentive to ask for generics, because they are not paying any part of the prescription through a copay. This could result in unnecessary utilization of higher-cost brand name drugs. Under a percentage copay, the retiree would pay part of the prescription cost, making them more likely to ask for lower-cost generics.

Flat coinsurance amounts (such as $8 per prescription) could also be implemented to offset total program costs and encourage appropriate utilization, especially if there was a difference between brand name drug and generic drug copayments. These flat copayments are not as effective, however, in controlling overall program costs or encouraging generics as percentage copays.

3. Target Drug Manufacturer Product Costs

Drug Manufacturer Rebates

• Drug manufacturers provide discounts and rebates on their products to many health care plans and purchasers. However, the BC/BS FEHBP program receives rebates from drug manufacturers that total only 5.8 percent of total expenditures. This is a very low percentage.

For example, Medicaid receives rebates from drug manufacturers that average 19.5 percent of its total expenditures. BC/BS FEHBP could earn tens of millions of dollars more in drug rebates if BC/BS was more aggressive in negotiating rebates with drug manufacturers, where most of its expenditures are incurred. This would take the pressure off the program's instituting other mechanisms that unfairly target retirees or pharmacies.

Preferred Drug Programs

• BC/BS should implement a program to encourage the pharmacist, with the permission of the patient physician, to switch the retiree to a less expensive, equally effective therapeutic drug product if it is available and on the formulary. This is a practice which is currently very effectively employed by other third party payors, resulting in significant cost savings.

Generic Performance Incentives

• The rate of lower-cost generic dispensing in the BC/BS program should be in the 32-36 percent range. It is not clear that this is currently the case. In fact, according to the BC/BS data, only 7 percent of the cost savings in the program, or about $23 million resulted from generic drug use. There should be a much higher rate of generic dispensing in the program.

There are many third party payors that incentivize the use of generic drugs through such mechanisms as using a lower patient copay on generic drugs, or by providing a financial incentive to pharmacies to dispense generics. These do not appear to be currently used in the BC/BS FEHBP program. Millions of dollars in generic drug savings may be forgone.

EXPENDITURE COMPONENTS AND COST CONTAINMENT RATIOS OF THE FEHBP BC/BS PRESCRIPTION DRUG PROGRAM
(prepared by NACDS, based on data reported by BC/BS, May 1995)

Total Drug Program Expenditures:	$1.2 billion
Total Retail (66%)	$800 million
Total Mail Order (33%)	$400 million
Total Retail Component	$800 million
Manufacturers Component (75%)	$600 million
Pharmacy Component (25%)	$200 million

Total Mail Order Component	$400 million
Manufacturers Component (75%)	$300 million
Pharmacy Component (25%)	$100 million
Total Manufacturers Component	$900 million
Assume 3:1 brand:generic expenditure distribution	
Brand Expenditures	$675 million
Generic Expenditures	$225 million
Total Pharmacy Component	$300 million

Cost Containment Ratios

1. Manufacturers Rebates/Percentage of Total Program Expenditures

Medicaid:	19.5% average
BC/BS FEHBP (actual):	5.8% average
BC/BS FEHBP (estimated):	

Percent of Drug Category Receiving Rebate	Percent Rebate	Total Savings (millions)
100% Brand ($675 million)	15%	$101
100% Generic ($225 million)	11%	$ 25
50% Brand ($338 million)	10%	$ 34
50% Generics ($113 million)	5%	$ 6

Drug Manufacturer Rebates

Total brand name (??) discounts: 21% or $69 million in savings/$1.2 billion total program = 5.8%.

Total brand name savings/total brand name expenditures:
(includes discounts, PA and BTB substitution)
$78 million/$675 million total brand = 12%

Generic discounts: $23 million/$225 million total generic expenditures: 10%

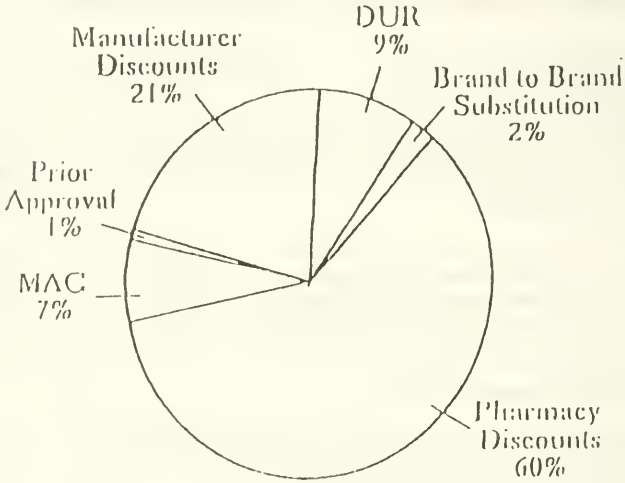
2. Pharmacy Cost Containment/Percentage of Total Pharmacy Component

$196 million pharmacy discounts/$327 total savings:
60 percent total savings from pharmacy
$196 million pharmacy discounts/$300 million total pharmacy component:
65 percent of total pharmacy component are reduced

Summary of Cost Containment as a Percentage of (Total Expends), Incurred Expenditures, Savings:

Brand Name Drugs (56%):	12%, 21%
Generic Drugs:(10%)	10%, 7%
Pharmacy Discounts:(25%)	65%, 60%

Savings to the FEHBP Program as Reported by Blue Cross and Blue Shield



$327 Million

Source: Blue Cross and Blue Shield Association, Presentation at May 17, 1995, National Health Policy Forum, Washington, DC.

SUBCOMMITTEE RECESS

Senator MIKULSKI. If there is no other business before the subcommittee, the subcommittee will stand in recess until Thursday, June 13, when we will hear from Gen. Barry McCaffrey, the Director of the Office of National Drug Control Policy.

[Whereupon, at 3:10 p.m., Wednesday, May 15, the subcommittee was recessed, to reconvene at 2:52 p.m., Thursday, June 20.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

THURSDAY, JUNE 20, 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:52 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby and Kerrey.

Also present: Senator Bond.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY OF THE TREASURY

ACCOMPANIED BY GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

OPENING REMARKS

Senator SHELBY. The hearing will come to order.

Today, we are happy to welcome the Secretary of the Treasury, the Honorable Robert Rubin, as our witness. Mr. Secretary, before we start, I want to thank you for adjusting your schedule to accommodate the subcommittee. We know there is a lot going on under your jurisdiction right now.

The full committee met this morning, as you probably know, to adopt a budget allocation for the subcommittees to mark up the defense, foreign operations, and military construction bills. And I appreciate your willingness to adapt your schedule.

I am going to forgo any further statement at this time because I have a number of questions so we can devote more time to questions and answers.

Senator Kerrey.

Senator KERREY. I have no opening statement, Mr. Chairman.

Senator SHELBY. Mr. Secretary, your written statement will be made part of the record in its totality and you may proceed.

STATEMENT OF ROBERT E. RUBIN

Secretary RUBIN. Thank you, Mr. Chairman. Thank you, Senator Kerrey.

I will make some opening oral comments, if I may, and then George Muñoz, our Assistant Secretary for Management and Chief Financial Officer, and I would be delighted to respond to anything you would like to discuss.

Let me start, Mr. Chairman, by saying that I spent 26 years in the private sector on Wall Street before I came here and have now been at Treasury for 17 months. One of the impressions I had when I was in the private sector was that Treasury had enormous numbers of really outstandingly capable people. It is one of the gratifications of being Secretary of the Treasury to find that that is very much the case. It is really a very unusual institution, and my absolute first priority as Secretary of the Treasury is to maintain the excellence of that institution.

What I am going to do, if I may, is speak for a few moments about a few of our priorities, and then in light of the action that the House subcommittee took on Tuesday with respect to the IRS, and TSM particularly, I am going to spend the balance of my time on those two subjects.

We originally requested $11.4 billion, as you know. We revised that to $11.1 billion. I know, as you have said, that you have now received your 602(b) allocations, and the Treasury allocation is below our revised budget request.

The priorities I will discuss—and I will keep that part of my discussion very brief—I will do in the context of our original request.

SOUTHWEST BORDER

We have made it a priority to strengthen protection, drug interdiction along the Southwest border, and in that connection have requested $65 million for 657 new personnel for the Southwest border and Customs, also equipment and technology. It is called Operation Hardline and it has had real effects both with respect to seizures and the rate reduction in a practice known as port running where cars would run right through the border, often at great risk to the Customs officials.

In the area of economic empowerment, Mr. Chairman, we support the community development financial institutions fund. We have asked for $125 million. We know it is not in your subcommittee. It is in VA–HUD, but we do believe it is a very important program with respect to promoting growth in the inner cities and other distressed areas in our country.

The Financial Management Service, which gets almost no public attention but which is a very important part of Treasury and I think contributes very greatly to our country, has included in its request expansion of electronic funds transfer, electronic benefits transfer. That is really the modernization of how our Government functions. And also the implementation of new debt collection legislation, which I think is a good step forward again with respect to how our Government functions.

I knew very little about law enforcement before I came to this job, but as I learned during my confirmation and have since I have been Secretary of the Treasury, law enforcement is a very important part of what Treasury does. I have gotten to know a lot of the people involved and have developed enormous respect for the law enforcement officers of the Treasury Department. As you know,

about 40 percent of the Federal law enforcement officers are in the Treasury Department.

The Bureau of Alcohol, Tobacco and Firearms, which has the arson jurisdiction in this country, is devoting enormous resources to the church fires, particularly the African-American church fires in the Southeast. It is the sole agency with respect to the arson focus on the church fires and is working very closely with the FBI which has civil rights jurisdiction and, of course, State and local authorities. We have requested a $12 million supplemental to support ATF's investigation of church fires, and we have made the same request in the House and, in fact, is included in the House mark.

Let me now, if I may, turn to the Internal Revenue Service and to TSM. It is something I know, Mr. Chairman, that you have given a great deal of thought to and Senator Kerrey has as well and I have too.

We have enormous concern over the cuts of the magnitude that have been proposed. We are still studying the House mark, so my comments really are our most preliminary conclusions. We will have much better developed conclusions when we have had more chance to look at it.

First, with respect to ongoing operations, it appears that the mark may well require the IRS to reduce or lay off some numbers of thousands of Federal employees and that about one-half of those reductions are going to be in the IRS information systems personnel. That will reduce our ability to process over 200 million tax returns and it will reduce our ability to provide the 80 million tax refunds on a timely basis.

TAX SYSTEMS MODERNIZATION

We have had a good filing season, Mr. Chairman, and I think it is very important to build on that and to carry forward. This would be a very large setback in terms of continuing our operations in a way that serves the American taxpayers' customer service, but also make sure we collect the taxes that the Government is due.

The House mark also contains a number of measures that interfere with the effective management of the IRS, and one example is the requirement the Department of Defense be responsible for contracting decisions on tax information systems. We have, in fact, consulted with the Department of Defense on that issue since they have a lot of experience with it. But I think without question that while their advice is very helpful, that the process would be better conducted by the Internal Revenue Service.

The next question is the question of modernization. I do not think that you can conduct financial services kinds of activities and processing—and that is, after all, what this is, just like a credit card company is or a bank is. It is something I used to do a lot of when I was at an investment banking firm. I do not believe that you are going to be able to conduct this in an effective fashion in the Government or in the private sector unless you have relatively state-of-the-art technology, relatively state-of-the-art systems.

That is what TSM is all about, thinking about how do we best interact with the taxpayer. That is the business sense: How do we best interact with the taxpayer and the various aspects of inter-

action? And then once you have made that judgment, what kind of hardware and software do you need to support that?

I believe that the numbers in the House mark very substantially reduce our resources below the level which is actually going to be carried forward in a sensible manner.

Let me say we recognize that there are serious problems with TSM, but I believe that deeply reducing the numbers of people who are involved in the improvements to get this back on track is not the right way to go about doing what needs to be done.

When I was in the private sector, Mr. Chairman, we had a badly flawed systems situation. It was a very large firm that I eventually wound up running, and it was clear if we could not correct that, it could undermine the entire firm. I had coresponsibility for overseeing that process.

You can do a lot with outside contractors, and as you know, we plan to very substantially increase our reliance on outside contractors. But you cannot accomplish these purposes unless you have an adequate number of internal people who know what they are doing and can manage these processes.

You are familiar with TSM, so I don't need to describe what it is. But let me say, as I said a moment ago, that it is not simply hardware and software. It is really rethinking how we interact with the taxpayer and all the various facets of that interaction and then how to best accomplish that interaction for the years and decades ahead.

The beginning of solving any problem is recognizing you have it. There is no question we have fully recognized that. These problems developed over a long period of time. They will not be solved quickly. It will take time to solve them, but we are committed to solving them.

The GAO has raised many concerns and we share many of those concerns. Even before the GAO reported its observations, as you know, we reduced our funding request by $186 million, from $850 million to $664 million, in order to put TSM this year in a mode that we thought was practical and sensible.

We have taken several steps. One, we have restructured our oversight process. I have asked Deputy Secretary Summers to manage TSM as if he were the board chairman overseeing a major long-term capital investment program, and that oversight would involve both passing on strategic judgments and major investments.

Second, we are pursuing a vigorous program of corrective actions.

Third, we anticipate a greater use of outside contractors and we are very focused on that now.

Fourth, and very importantly, we were able to recruit a highly experienced chief information officer, Arthur Gross, who has successfully led a similar modernization effort in New York that was on a large scale.

In addition to the interference with the management and in addition to the reduction in the amount of funding, the House mark also required fencing off of TSM funding. I believe that fencing off exacerbates the problem and does, indeed, put this modernization program in jeopardy.

IRS LAW ENFORCEMENT

Finally with respect to the IRS, we had requested roughly $360 million to increase IRS law enforcement. The IRS estimates this would increase revenues by about $1.5 billion. Instead, law enforcement has been reduced, and the IRS estimates that, by the same token that would reduce revenues about roughly $3 billion, if you take the same analysis.

The effect is not only on the Federal Government, but it is also on many State governments since many of them have information sharing on audits and readjustments with the IRS.

So, to sum up with respect to the IRS, I believe, Mr. Chairman, the IRS is not popular. Tax collectors never are popular, but they are essential if you are going to have government. I believe that we are doing great damage to an institution that is absolutely essential, to an institution that has problems with respect to modernization, but in a situation we have a real commitment and a program to get back on track with that modernization.

More generally as to Treasury, I think this has been 1½ years of very great accomplishments for us. We have contributed to an economic policy that is working. We have been active in many areas of law enforcement, tax policy, international finance and opening markets, new currency, financial services, processing of the type that I have mentioned before, electronic benefits transfer and funds transfer, and other matters.

Assistant Secretary Muñoz and I appreciate the opportunity to appear before you today and we would be delighted to respond to your questions.

One other item on the taxes, if I may. I think a very constructive development is one that I know Senator Kerrey played a very large role in and that is having a tax commission. It is something we welcomed ab initio and we continue to welcome it and we welcome Senator Kerrey's very active involvement.

PREPARED STATEMENT

Senator SHELBY. Thank you, Mr. Secretary. We have your complete statement, and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF ROBERT E. RUBIN

INTRODUCTION

Senator Shelby, Senator Kerrey, members of the Subcommittee: I appreciate the opportunity to testify on the Department's fiscal year 1997 request. With me today is George Muñoz, our Assistant Secretary for Management and Chief Financial Officer.

The responsibilities of our Department cover areas as diverse as law enforcement, revenue collection, financial management and regulation, international economic affairs, and manufacturing currency and coins. Treasury is one of the principle agencies that advises the President on policies that maintain a healthy economy, create jobs and increase incomes. In addition, our bureaus are among those that carry out these policies. We are proud of our record with regard to the economy—unemployment has dropped to 5.6 percent, 9.7 million new jobs have been created in 40 months, inflation is at a near 30-year low, and the deficit is now forecast to fall for four straight years. I knew of Treasury's reputation for excellence during my 26 years on Wall Street and two years at the White House. After a year and a half as Treasury Secretary, I can tell you that the highly-capable and dedicated profes-

sionals at Treasury are serving the American public very well, and my first priority as Secretary is to maintain the excellence of the institution.

OVERVIEW OF THE FISCAL YEAR 1997 BUDGET

In view of our roles and missions, Treasury's fiscal year 1997 budget strikes an appropriate balance between the competing goals of adequately funding our priorities and fairly contributing to balancing the Federal budget. Our request emphasizes the administration's top funding priorities in areas such as tax systems modernization and border protection, while at the same time stressing the principals of reform and reinvention, which allow us to address old problems with new solutions.

Treasury originally requested $11.4 billion in operating funds for fiscal 1997. Since then, there have been two changes. First, Congress decided to leave CDFI funding responsibility at VA-HUD. We had requested $125 million in our budget for CDFI which is no longer in our request. Second, we informed this subcommittee and the House subcommittee that our Tax Systems Modernization request of $850 million could be reduced by $186 million to $664 million under the new management baseline. While that brings our request to $11.1 billion, we know that this morning you received your 602(b) allocations, and the Treasury share is likely to be below our revised budget request. We recognize that, but want to discuss some of the key priority areas of our request in revenue collection and law enforcement. I want to emphasize that, throughout the budget formulation process, we asked our bureaus to limit their requests to essential activities—particularly in light of the House markup this week that has the potential for severe and negative impacts on our tax administration system. I would also like to add at this moment a request for your support of the President's request this week for supplemental appropriation action to address acts of arson against African-American churches. The request would support the ability of the Bureau of Alcohol, Tobacco and Firearms to investigate and solve these crimes.

My testimony today will not only outline our request and highlight some of our accomplishments, but also report on Treasury's stewardship and management of its bureaus. I'd like to summarize our fiscal 1997 request, starting with the Internal Revenue Service and TSM. We've attached a more detailed presentation of our fiscal 1997 request to my remarks.

IRS continues its Tax Systems Modernization effort.—Deputy Secretary Summers came to Congress earlier this year to discuss Treasury's concerns with IRS's Tax Systems Modernization program. The General Accounting Office, the National Research Council, and this Committee have criticized IRS's fundamental ability to modernize itself. While we share some of those same concerns, we are pursuing a number of strong corrective actions. Specifically, we have:

—Articulated the vision for TSM as contained in our recent report to Congress.
—Put in place a new management team. Established a single point of accountability and budget control in the person of the Associate Commissioner for Modernization. We have also appointed a new Chief Information Officer, who has successfully implemented a tax systems modernization program for New York State.
—Established an investment review process in accordance with GAO Strategic Information Management (SIM) best practice guidelines, through which we are subjecting all information systems investments to a disciplined review process.
—Re-scoped our entire budget request from $6.7 billion in five years to less than $4 billion.
—Leveraged technical and management skills by increasing reliance on the private sector for systems engineering, design, development and integration so that by the end of fiscal year 1997, 68 percent of TSM labor dollars will go to outside contractors.
—Significantly increased Departmental oversight of TSM through a restructured joint Treasury/IRS Modernization Management Board, which the Deputy Secretary chairs.
—Used expert consultants experienced in large scale government systems management and development efforts to augment our efforts.

As part of our review of funding requirements, in correspondence to you on June 6, 1996, we have reduced our requirements for fiscal year 1997 in the TSM area from the original request of $850 million to $664 million. The revised level for fiscal year 1997 is proposed in addition to the actual slow-down that has already occurred within the fiscal year 1996 enacted budget of $695 million, an amount that is over $300 million less than the Administration's original fiscal year 1996 request. The revised $664 million is based on an updated assessment of where we are in the modernization process and reflects a deferral of some program development as IRS

shifts from in-house work to contractors. It stems from a review of the entire TSM project in terms of four basic risk categories: maintenance and operations; investment in program management, engineering and infrastructure; roll-out of proven projects; and incremental investment in the development of new TSM capabilities.

We need to ensure effective stewardship in Treasury of the limited dollars that you have to appropriate and demonstrate clear accountability for the investments we undertake. Treasury will approve funding for only those projects that present a favorable business case and appropriate readiness reviews, regardless of the TSM funding level in fiscal year 1997. The Investment Board will manage the investment decision making process which the Deputy Secretary will oversee through the Modernization Management Board.

On that final point, I would like to add that the IRS has made progress in reducing the burden on taxpayers and improving customer service, although much remains to be done as we work smarter with scarcer resources. More taxpayers can file electronically or over the phone and take advantage of direct deposit for tax returns. Taxpayers calling the IRS will find their calls answered more frequently, with more satisfactory service. Information and forms can even be downloaded directly from the IRS Internet home page. Moreover, the IRS has been working with small businesses to reduce the paperwork involved in record keeping. They have also reduced the time and effort involved in resolving account and collections issues.

The IRS will continue to protect tax revenue and maintain fairness.—The $359 million increase requested for IRS tax law enforcement will, by IRS estimates, result in $1.5 billion in added revenue collections in fiscal 1997. Over the seven-year budget period, this initiative will result in a 4-to-1 return of revenues collected and deposited into the General Fund versus the cost of the initiative. Under the pay-go scoring rules of the Budget Enforcement Act, these revenues must be used for deficit reduction and cannot support new spending or tax cuts. This proposal adds staff and improves systems to increase telephone and correspondence compliance activities. It is a strategy that emphasizes account resolution early in the process, which is more cost-effective, and less intrusive and burdensome than face-to-face enforcement actions by revenue agents and revenue officers.

Customs will continue to strengthen protection of the Southwest Border.—The total request for this initiative is $65 million, including $41 million for 657 new agents, inspectors, and other staff at the border. The remainder of these funds are requested from the Violent Crime Reduction Fund to equip the new border personnel for their jobs and for technology improvements. This initiative combats drug smuggling while making inspections less intrusive and vehicle processing quicker and more effective. We have seen how effective the Customs Service can be on the border through the results of Operation Hard Line. Because of Operation Hard Line, in the past year on the southwest border, cocaine seizures are up 19 percent, heroin seizures almost 110 percent, marijuana seizures are up 25 percent, and there has been a doubling of drug seizures in commercial cargoes. As you are aware, as our enforcement actions hit smugglers hard in one area, they often tend to shift entry areas, so we have now heightened our watch on the atlantic and Caribbean to counter smuggling there. Project gateway is having some important successes.

Treasury also will continue its support of Community Development Financial Institutions.—The President's budget request includes $125 million for the Community Development Financial Institutions Fund (CDFI). This initiative will help create a nationwide network of diverse, specialized, private financial institutions that will bring needed investment capital to distressed urban and rural communities. These institutions include community development banks, credit unions, loan funds, venture capital funds, and micro-enterprise loan funds. This effort is grounded in private sector market discipline while it leverages large amounts of private capital. The effect of these investments will encourage renewed and healthy private market activity in distressed communities, promote entrepreneurship, revitalize neighborhoods, generate tax revenues, and empower local residents.

The Financial Management Service will continue to improve and modernize its financial systems and services to government agencies.—These efforts include the expansion of Electronic Funds Transfer and Electronic Benefits Transfer; continued standardization of government-wide data in financial systems, which improves tracking and accountability; and the establishment of a debt management operations center to assist efforts at other government agencies with delinquent debt collections.

ACCOMPLISHMENTS

As I mentioned at the outset, Treasury has responsibilities that range from domestic and international economic policy, to law enforcement and manufacturing

our money. We collect 97 percent of the revenues taken in by the federal government. We have 40 percent of the law enforcement personnel in the government. While I've mentioned a few of our accomplishments so far, I'd like to highlight some others and talk about some of the innovations now under way within the Treasury Department. Among the other highlights over the last year were:

—The indictment of over 70 members of the Cali cocaine cartel through the efforts of the Customs Service and other law enforcement agencies;

—ATF's quick effort in uncovering important evidence from the Oklahoma City Federal Building bombing site;

—The Federal Law Enforcement Training Center's new training involving improved federal guidelines for the use of force in law enforcement; and

—The increased targeting of IRS investigators to key money laundering cases. This effort, in particular, led to 117 arrests of major drug traffickers worldwide.

Perhaps the most visible of our more recent efforts is the new $100 note being produced by the Bureau of Engraving and Printing and introduced into circulation earlier this year. It is the first of five notes to be redesigned with anti-counterfeiting protections to stay ahead of the technology curve. The smooth roll out of this note serves to maintain confidence in our currency as well as economic stability in countries where U.S. currency is a preferred medium of exchange.

Our fiscal bureaus continue to improve their services. The U.S. Mint is now entirely under a revolving fund, which enables more business-like operations and better financial management.

The Office of the Comptroller of the Currency streamlined its bank examination procedures and reduced the volume of information banks need to produce in advance. The Bureau of Public Debt completed its consolidation in Parkersburg, West Virginia and continues to enjoy increased savings and efficiency.

Since this time last year, our Tax Policy division presented seven new international tax treaties to the Senate for its advice and consent. We have completed negotiations on five additional treaties and are actively negotiating ten new treaties. These treaties will strengthen tax fairness and promote the international exchange of tax data. Some of these treaties also contain important features to aid in countering the new wave threat of money laundering. We are currently holding discussions about money laundering in our international economic forums and Treasury enforcement functions are now routinely being incorporated in this area.

Our International Affairs division performed some critical work with regard to strengthening financial markets following the Mexico crisis, work endorsed by global leaders at the G–7 Halifax Summit and now being replicated in important regional forums. In addition, they have been working diligently on the goal of opening financial markets and encouraging development and reform in the developing and transitional economies.

STEWARDSHIP OF RESOURCES

If I could turn now to the manner in which Treasury has used the resources entrusted to us. The Department has used two tools to improve its stewardship of public resources: Reinvention, and Performance-Based Management. I'd like to summarize our efforts in these areas.

Treasury is an active, award-winning participant in the effort to reinvent govermnent.—Last year, the Administration began the second stage of the National Performance Review. The goals were to improve customer service, lower costs, and increase efficiency. Last year, the Department worked with its bureaus to generate a set of wide-ranging proposals to meet those goals. I want to highlight three key reinvention efforts: Debt Collection Management, the Federal-State Tax Partnership and a consolidation of administrative functions.

—Last June, the President announced the Debt Collection initiative to improve the collection of non-tax receivables and reduce the cost of delinquent debt collection.

—The Federal/State Tax Partnership allows business taxpayers in 31 states to file one return for both their federal and state submission.

—The Department is beginning to study and design consolidating administrative functions. In looking to the future, this budget requests funds for the first stage of this effort—a reengineering of human resources functions Treasury-wide.

Performance-Based Management has changed our management focus from inputs and processes to an emphasis on outcomes and program results. Treasury has embraced this management style in three ways: strategic planning, innovative resource management, and improved accountability.

Strategic planning is critical to effective resource management.—However, just a few years ago, most Treasury bureaus had no strategic plan. Today, we have a co-

ordinated, Department-wide planning process. This effort coincided with the passage of the Government Performance Review Act. Treasury has already requested each bureau to develop a five-year strategic plan this Spring—one year earlier than the law mandates.

Good strategic planning also includes regular reporting on annual performance. Last year, we began to replace our workload measures with program measures. This year, our budget improves this set of program performance targets. Good measures are not always available and ours are not perfect. However, we believe that we have made progress and will continue to look for improvements. The Committee's staff has already been helpful in the early development stages. We welcome your continued feedback.

Next year, our budget request will also contain a report on our performance against the previously proposed targets. Including the report on program performance in the budget document is one of the key steps we are taking to integrate the entire process of resource management in the Department.

—*Treasury is taking advantage of innovative resource management tools.*—The Government Management Reform Act, or GMRA, provided agencies with the authority to create franchising—new mechanisms for delivering common administrative products and services on a competitive and self-sustaining basis. Services provided under franchising will achieve greater efficiency and quality.

—*Treasury is improving its accountability for its use of resources.*—We are participating in a GMRA pilot program to prepare an "Accountability Report." This report summarizes and combines a variety of financial management reports, required by many different laws, into a single, streamlined, easy-to read document. Our goal is to have this one report fulfill the reporting requirements of the underlying statutes.

The Department continues to improve its financial management. Of the eleven financial statement audits of Treasury entities conducted for fiscal year 1994 pursuant to the Chief Financial Officers Act, eight received unqualified audit opinions. This is one more than we received for fiscal year 1993, and five more than we received two years ago.

This year, Treasury is implementing a major element of a Treasury-wide integrated financial management system. The Treasury Information Executive Repository (TIER) is a computer database that will house our Treasury-wide General Ledger and allow bureaus to directly transmit account information electronically to the Department.

CONCLUSION

In closing, I'd like to review the main points and leave you with a few thoughts before I take your questions. First, given the breadth of responsibilities of the Treasury Department, the budget we have submitted strikes a balance between adequately funding our priorities and fairly contributing to deficit reduction. Second, with Deputy Secretary Summers' and Commissioner Richardson's leadership, the IRS will strengthen and focus its modernization efforts to produce real benefits to taxpayers. I would urge you, however, to recognize that, just as it has taken many years to get us where we are today, all of TSM's problems will not be solved overnight. Third, Treasury is, I believe I can fairly say, a leader among government agencies in innovation and improving customer service. Fourth, we are integrating enforcement policies into our more traditional functions. And finally, Treasury is absolutely committed to using the monies entrusted to us wisely, to reinventing our operations to make them more efficient, and to a strategic planning process that gives our Department a better look at where we are headed not one or two but five years down the road so we can make the best use of our resources and the strengths of our individual components.

Again, I appreciate this opportunity to come before you and share our successes and our plans. I would be happy to address any questions you may have.

TAX COMMISSION

Senator SHELBY. Where are we on the Tax Commission?

Secretary RUBIN. Well, we could ask Senator Kerrey to respond, but I would be happy to if you would like. [Laughter.]

We believe that we have a chairman and maybe a cochairman.

Senator SHELBY. Senator Kerrey will not let me ask him questions. [Laughter.]

Secretary RUBIN. He will not let you ask him? Well, you could ask me and I could ask him, and then he could refuse to respond. [Laughter.]

But I believe, Senator, that we now have a chairman and a co-chairman, do we?

Senator KERREY. We will meet next week to elect.

Secretary RUBIN. We will meet next week to elect. We have some good ideas as to candidates, and we are prepared at the Treasury Department——

Senator SHELBY. You got a lot of votes promised and everything? [Laughter.]

Secretary RUBIN. Well, the candidates have to round up their own votes.

Senator SHELBY. It is kind of like the leadership race in the Senate.

Secretary RUBIN. And we will support with adequate resources. I think it is a very constructive process.

Senator SHELBY. Well, I think it is very important. We will get into it in a few minutes.

Mr. Secretary, before we get into some of the things you have covered, I would like to ask some questions I think that are relevant and especially timely. I have several questions for you on many of the matters that you addressed in your testimony. Before I get into them, I want to raise a pressing issue that has confronted the Department and the Secret Service, which you are in charge of as Secretary, in recent weeks.

We have heard and read press reports from the White House and other named sources that the Secret Service, which falls under you, was responsible for providing inaccurate or out-of-date information on who had access to the White House. This reliance on out-of-date information provided by the Secret Service has been touted as the reason why White House officials improperly sought FBI background files on more than 400 former White House employees. In addition, several lists were floated that were attributed—or they tried to attribute—to the Secret Service.

You know as Secretary of the Treasury and I know being up here in Washington the Secret Service has had a sterling and I still believe has a sterling reputation. But I think you know how deeply a lot of us are disturbed—and I believe you should be, and I believe you are concerned—about these allegations against the Secret Service that have been made.

Senators Bond and Grassley and I sent a letter to you on June 11 requesting a briefing with the Secret Service to understand the policies and procedures on the handling of passholder lists by the Secret Service, and I would like to thank you, Mr. Secretary, from the outset for your responsiveness in making the Secret Service officials available to the Senators to answer our questions. I do this on behalf of Senators Grassley and Bond and myself.

Based on the information, Mr. Secretary, we have received from the Secret Service on the maintenance of White House passholder lists, we have discovered that the lists that have been attributed to the Secret Service could not have been generated from their E-pass system. They said that. This is your Secret Service.

We have also learned that the Secret Service passholder data base could not—could not—have generated an out-of-date list and that the Secret Service regularly provided the White House with up-to-date lists of passholders as well as a list of only active passholders.

These facts I believe undermine the claims that the Secret Service somehow failed in their duty to provide accurate information on who properly had access to the White House.

But what is more, the Secret Service has worked day and night, as you well know, expending tremendous resources to try to address these claims against them. And they should. The Secret Service is a law enforcement agency. You are charged with the responsibility for it. They report to you through the Assistant Secretary for Enforcement.

So, Mr. Secretary, I am particularly angered by the thought that the Secret Service is being forced to defend itself, to defend itself against what are turning out to be one by one false allegations. The time they spend carefully analyzing and auditing these lists to determine if the Secret Service was somehow responsible takes away from their primary duty of law enforcement.

Mr. Secretary, I know you have got to share some of my concern and other Senators' concern over what appears to be intentionally false and misleading allegations against the Secret Service. I know this puts you in a tough position. You are the Secretary of the Treasury. You are a very senior and a very important member of the Cabinet, but as Secretary of the Treasury, you have a duty, a responsibility, to protect and defend the Secret Service when they are right. And a lot of us believe that they are right and have a sterling reputation.

Have you, Mr. Secretary, had an opportunity to review the Secret Service's responses to the questions that we outlined in our letter to you of June 14? We received the responses yesterday, June 19. If you have not had a chance to respond, would you review them and get back to this committee as soon as possible, expeditiously? Do you want to comment?

Secretary RUBIN. Yes; let me comment, if I may, Mr. Chairman.

You referred to the Secret Service having a sterling reputation. I think they have a sterling reality as well.

Senator SHELBY. What now?

Secretary RUBIN. You referred to the Secret Service having a sterling reputation. I agree with that. I think they also have a sterling reality.

Senator SHELBY. Absolutely, and I think that reputation is very important. It takes years and years to build, does it not?

Secretary RUBIN. I think they are a great institution. I have gotten to know them well and worked with them on a number of matters.

I think in this particular matter, Mr. Chairman, that what we need to do is do exactly what is happening which is to all cooperate with the independent counsel. And our instructions to the Secret Service from the very beginning were to cooperate with your committee, cooperate with the independent counsel. Then it was going to be the FBI. Now it is the independent counsel again.

I think the right answer, Mr. Chairman, is that I do not know what the facts are today, and I do not want to speak for you, but I suspect you may not as well. I think that having an independent counsel engaged in this investigation is exactly the right thing to do. Hopefully in not too long a period of time, we will know what the facts are and then we can make judgments. I, for my part, would withhold judgment until I knew what the facts were.

Senator SHELBY. Do you support the findings of the Secret Service, what they furnished us? Do you support that?

Secretary RUBIN. Mr. Chairman, I have no reservations whatsoever about the Secret Service. I have not taken it upon myself to engage in the investigation that the independent counsel is engaged in because they are going to engage in that investigation, and when they are finished with it, then I can look at their evaluation of what happened and I will know—and we will all know—what the facts are. My own judgment is that we probably all ought to wait until that investigation is done and then we can make reasoned judgments about what happened and how to react to it.

Senator SHELBY. But you do believe in the reputation and the reality of the Secret Service.

Secretary RUBIN. I have enormous regard for the Secret Service. I also have enormous regard for the people I work with in the White House.

Senator SHELBY. Do you believe that the Secret Service was compromised by the White House?

Secretary RUBIN. Mr. Chairman, I will stick with what I said before. I will withhold judgment until I see the facts.

Senator SHELBY. Do you believe the Secret Service has undertaken to provide the most accurate information that they can?

Secretary RUBIN. To the committee?

Senator SHELBY. That is right.

Secretary RUBIN. We instructed them through our counsel to cooperate fully with your committee and with the independent counsel, then it turned out to be the FBI, and now the independent counsel again. I have no doubt that they will do so.

Senator SHELBY. Mr. Secretary, would you assure this committee that the Treasury Department, which is headed by you, is undertaking everything in its power or will undertake everything in its power to ensure that the Secret Service—listen to the language—is not wrongly blamed for providing inaccurate information on who had access to the White House?

In other words, if the Secret Service is honest and right—and I believe they are—do you not have a responsibility to defend their position? Or does that put you in a bind as Secretary of the Treasury?

Secretary RUBIN. No, Mr. Chairman; I am not in a bind with anything. I just do not know what all the facts are.

Senator SHELBY. I know you do not, but assuming that is true, would you defend the Secret Service no matter what if you knew they were right? And you believe they are right, do you not, at this point?

Secretary RUBIN. I have confidence in the Secret Service. I also have great confidence in the people I work with in the White House, what I said before.

Senator SHELBY. Nobody has left the Secret Service. People are leaving the White House, though, are they not?

Secretary RUBIN. Oh, people leave the Senate. People leave all kinds of places.

Senator SHELBY. Yes; I know. That is a red herring you just threw out then.

Secretary RUBIN. No; I think it is an observation. People leave all kinds of places.

Senator SHELBY. Yes; but they just left recently down there.

Secretary RUBIN. Some people left recently.

Senator SHELBY. Absolutely, for a good reason.

Secretary RUBIN. I will withhold judgment on all aspects of this thing until we see what the independent counsel comes up with.

Senator SHELBY. Would you say, Mr. Secretary, that the Secret Service's reputation is as good as any law enforcement agency around as far as security and law enforcement?

Secretary RUBIN. They certainly have an excellent reputation. I do not want to engage in a comparative comment, but they certainly have an excellent reputation.

Senator SHELBY. Well, they work for you, though.

Secretary RUBIN. Yes; and I believe they have an excellent reputation. Not I believe. They do have an excellent reputation.

Senator SHELBY. Is the Secret Service not, Mr. Secretary, entrusted with the duty of ensuring only those individuals who should properly have access to the White House or given access, in other words, to protect the President?

Secretary RUBIN. I do not think that that—I think that breaks down——

Senator SHELBY. Do you want to study that?

Secretary RUBIN. I think, Mr. Chairman, it depends on what you exactly mean by that question, but if I could, I would like to respond to that because it depends on what exactly you mean by the question.

Senator SHELBY. Sure.

Would the Secret Service, Mr. Secretary, have any reason that you know of or that you are aware of to misrepresent who had access to the White House?

Secretary RUBIN. Mr. Chairman, I will say what I said before.

Senator SHELBY. I want you to answer the question. Let me read it.

Secretary RUBIN. No——

Senator SHELBY. Wait a minute. Do not interrupt me. I am just going to read the question.

Would the Secret Service have any reason that you are aware of to misrepresent who had access to the White House? I said do you know of any.

Secretary RUBIN. I certainly do not know of any, no.

Senator SHELBY. Or would they have any reason to your knowledge to re-create records to reflect that someone had access to the White House when in fact they did not?

Secretary RUBIN. Mr. Chairman, I am going to answer the way I did before because you keep referring to the Secret Service. That is an institution. There are many people——

Senator SHELBY. I know that.

Secretary RUBIN. Wait a minute. There are many people within the institution. There may be individuals with reasons for doing things that do not reflect the policies of the institution, just as the White House——

Senator SHELBY. Are you saying maybe somebody at the Secret Service would do this?

Secretary RUBIN. I am not saying anything, Mr. Chairman.

Senator SHELBY. But you are not saying they would not.

Secretary RUBIN. No; what I am saying is what I said before which is the independent counsel is taking a look at the facts and I really think it would behoove everybody to not try to get ahead of the independent counsel but to wait until the independent counsel has finished their work. Then we will know what the facts are, and then we can make our judgments.

Senator SHELBY. Are you aware of any other requests for information or files from the White House to any other agency under the authority of the Treasury Department during your tenure of some 1½ years or during Senator Bentsen's tenure, that is, income tax records, files, information derived from income tax records, that the White House has requested on any Member of the U.S. House of Representatives, any Member of the U.S. Senate or any of their employees in their offices or their committees?

Secretary RUBIN. I am aware of no such requests.

Senator SHELBY. Who would be in charge of keeping the integrity of the income tax files on each individual in America? That would come under the Treasury, would it not?

Secretary RUBIN. The IRS is under the Treasury.

Senator SHELBY. That is right.

Secretary RUBIN. The specific operational question that you are asking me would be——

Senator SHELBY. Would that come under the IRS Commissioner?

Secretary RUBIN. I assume it would come under Commissioner Richardson, but we can get back to you with a response on that too.

Senator SHELBY. Would you check that out—let me rephrase this—to determine if there has been any request for information coming from someone's income tax file by the administration since they went in office to the IRS on any Member of Congress, that is, the House and the Senate, their staffs, or the committees' employees?

Secretary RUBIN. Mr. Chairman, we would be delighted to check it out.

Senator SHELBY. You do not know of your own knowledge.

Secretary RUBIN. Well, I normally do not know. That goes beyond that. I certainly do not know of my own knowledge, but I also know how the IRS functions and how it functions in relation to Treasury and the enormous care that we all take on their side and our side.

Senator SHELBY. Well, we thought we knew how the FBI functioned too, but obviously even the Director of the FBI said we had been used.

Secretary RUBIN. I will stick with what I said just now.

Senator SHELBY. OK.

Secretary RUBIN. I think the probability of finding such a thing is remote.

Senator SHELBY. I hope it is not there.

Secretary RUBIN. But we will be delighted to take a look and get back to you.

Senator SHELBY. Mr. Secretary, I hope it is not there because I think the integrity of the IRS and the privacy of someone's file is very, very important.

Secretary RUBIN. I agree and I can assure you they agree.

Senator SHELBY. Would you check this out for your predecessor too?

Secretary RUBIN. We will go back several predecessors, but we would be delighted.

Senator SHELBY. Would you also check to see if this administration has requested any information that would come from the Internal Revenue Service on any former Bush or Reagan administrative officials, Cabinet officials?

Secretary RUBIN. Whether the administration has?

Senator SHELBY. Yes; the Clinton administration has requested of the IRS or the Treasury any information that would come from the income tax records.

Secretary RUBIN. We will be delighted, though I will give you the same answer I did before that I have enormous——

Senator SHELBY. I understand your answer, but you do not know, though. You said you did not. How would you know this and not know about the Secret Service?

Secretary RUBIN. No, no; that is why I am repeating my answer. I, certainly, of my own knowledge do not know and based on the very great care that we take and the very great concern on both sides that all of this be done proper fashion, I think the probability is remote. But we will certainly check.

Senator SHELBY. Mr. Secretary, what we would like to do is submit this in writing. We will do it before the day is over to make sure it is a thorough question.

Secretary RUBIN. We would be delighted to respond.

Senator SHELBY. Senator Kerrey.

INTERNAL REVENUE SERVICE

Senator KERREY. Mr. Secretary, I would like to talk about the IRS and the cuts that are proposed, first of all, both in the House and actually in your own budget request. Let me preface the remarks with a song that you have heard me sing in the past.

I do think that one of the hardest things for us to do is to acknowledge that this thing is apt to get worse. By that I mean we face—if you look at the President's budget, if you look at the budget resolution passed by the Congress, either one of those budgets call for substantial reductions in discretionary spending in the outyears. Under the congressional resolution, I believe it is about $60 billion in cuts in current dollars. In the President's, I think it is somewhat larger than that. Either way it is a rather substantial cut.

Secretary RUBIN. They are both substantial and particularly in the outer years.

Senator KERREY. And unrealistic I believe.

Last year—earlier this year actually—when we finally resolved the continuing resolution struggle and funded the five appropriations bills that were in dispute, we funded the additional money by

selling 4.7 billion dollars' worth of assets, no tax increase, no real additional restraint in entitlement growth over the short term to fund that. We sold 4.7 billion dollars' worth of assets.

This year we are looking at 12 or 13 billion dollars' worth of assets to kind of make ends meet to get through this particular budget cycle. And it jumps up to $20 billion and then $30 billion and then $40 billion and eventually $60 billion.

I just say that because I continue to believe that at some point, unless we are willing to take action on the CPI, this interest group budget may have 46 votes—I do not remember exactly what it broke down to but almost equally between Republicans and Democrats willing to adjust the consumer price index and use that money both for discretionary spending as well as to reduce the cuts in Medicare and Medicaid.

My own belief is we are going to have to go further than that. Indeed, I am very encouraged 36 Members of the Senate voted for long-term entitlement reform, including adjusting the eligibility age in both Social Security and Medicare and a number of other things that are tough to do in an election year. I just think increasingly people are recognizing that these kinds of cuts, as dramatic as it appears this year, are only going to get worse.

It reaches a point where I suspect you saw the testimony that Secretary of Veterans Affairs Brown gave before Senator Bond's subcommittee wherein he basically repudiated the President's budget for next year. I do not know if he meant to do it quite that way, but that is the net effect. Had it been a Republican administration with a Republican Secretary of Veterans Affairs, he basically would probably do the same thing. We are setting up, I think, a situation where next year citizens are going to be saying to us, well, why did we not do it last year?

I just say that coming into this because there is a problem here that is not really related to differences of opinion between the administration and the Congress but our continued unwillingness in the majority to face the growth of these entitlement programs. Again, I will not give the longer version. The longer version is it really starts to ratchet up pretty substantially when the generations slightly younger than I start to retire in 2013.

REVENUE COMPLIANCE INITIATIVE

It is not on the subject that we come here today to discuss, but I take every single opportunity, including "Good morning, Senator, how are you," to discuss this issue.

Let me talk about, first of all, your revenue compliance initiative. You are asking for $359 million, an additional 3,800 FTE's. Last year the subcommittee, I think, really had no choice but to reduce the budget by $405 million which included the second year of the compliance initiative. In 1997, you are proposing to do this one more time.

One of the problems that we face, as you know, is that this subcommittee does not get scored with any additional budget authority with revenue that might come in as a consequence of this effort, in this case, $1,570,000,000.

Is the $1.57 billion expected to be generated from this included in the President's calculation of the deficit for fiscal year 1997?

Secretary RUBIN. I do not think so, Senator Kerrey, though I am not sure. Do you know, George? I do not believe so. The $359 million or something was—I presume it would be above the line. Right?

Mr. MUÑOZ. It is the expectation of what would come, but it was not counted in.

Senator KERREY. It is not counted as revenue.

Mr. MUÑOZ. Well, when it comes in as revenue, it has to go right to the budget deficit, but because it is an estimate, it was not included as part of the plan.

Secretary RUBIN. I remember the conversation. I do not remember if we included it. We will get back to you. My recollection is the same as Assistant Secretary Muñoz, which is it was not included. But we will get back to you to confirm that.

Senator KERREY. It is a constant problem for this subcommittee because we—this is a unique situation where we are asking—basically, the agency that collects all the money that is spent in Washington, DC, or most of it anyway, is asking for authority to spend some additional money in order to generate more money than it is going to cost.

Secretary RUBIN. The more I think about it, they did not score that, Senator, so it would not have been in the budget.

Senator KERREY. I think it is going to be a constant problem for us and one that perhaps this commission that you referenced earlier can address. We faced the same thing with tax system modernization a number of years ago where we actually had to fund it off budget in order to be able to get it started.

In addition, Mr. Secretary, I am glad to see that you got proposed some plans to use more cost-effective and productive call collectors to make the initial contacts, but the initiative, as we have read it anyway, still includes an increase for revenue officers which are more costly and take more time to actually realize revenue.

Do you know why the IRS is still proposing to increase the number of revenue agents?

Mr. MUÑOZ. Beyond the $359 million which is a separate initiative, all of it revolves around our commitment to making sure that we have enough revenue agents collecting the revenue that is out there. As you know, the amount of returns that are filed increases every year, and the amount of questions that arise and people requesting assistance with their account and what their true account balances are really does require an increase in revenue agents in that area.

Senator KERREY. You are also proposing an increase of $40 million and 800 FTE's for document managing in your budget request. Why does Treasury support this particular initiative?

Mr. MUÑOZ. Document management is part of the modernization effort again. Again, more documents are coming in and maintaining the data, warehousing the data, and then retrieving the data in a timely fashion and in a way that it has the appropriate information for the taxpayers is our goal. In fact, $40 million is just part of our maintenance of the ongoing operation.

Senator KERREY. What do you expect tax compliance to be this year? Can you just use this opportunity to talk about tax compliance this year versus 10 years ago, 20 years ago?

TAX COLLECTION

One of the things that I think is very helpful to do with the IRS is to give credit. My own view is that the history of the IRS, because we have only been collecting income taxes for 83 or 82 or so years, and up until the middle or early 1950's, the American people saw the IRS as relatively corrupt. The agents were political appointees. It was pretty easy to get the desired flexibility in collections, and in the elimination of that corruption, no one accuses in this country—I mean, there is no hint of corruption on the part of agents at all any longer, and that has only been about 40 years since that has existed.

In addition, since the early 1970's, when the law was changed then, there is no really serious accusation that any administration is directing the IRS to investigate a list of people as once was the case. So, there has been substantial improvement.

I just thought I would give you an opportunity to talk about what you expect compliance to be this year. Is the compliance percentage going up? Is it flattened out? Where are we?

Secretary RUBIN. Do you know how it compares, George?

Mr. MUÑOZ. We have noticed that in this last decade, it basically has leveled in the 86 to 87 percentile, and we expect for 1997 to be 86.7 percent. Part of it, Senator, as you know——

Senator KERREY. Excuse me, Mr. Muñoz. Is it true 80 percent of the taxes collected are in the withholding category so that 80 percent of the $1,400,000,000,000 that you collect is collected in withholding?

Mr. MUÑOZ. I do not have that percentage in front of me, but the overwhelming majority of the taxes do come from withholding, both businesses that submit their withholding, as well as individuals that supply their estimated taxes.

Senator KERREY. Eighty percent total compliance you are expecting?

Mr. MUÑOZ. 86.7 percent is what we would expect for next year. That is the percentage of taxes owed that we will collect.

Senator KERREY. And what was it last year?

Mr. MUÑOZ. 86.3 percent, slightly less.

Senator KERREY. And what was it in 1978?

Mr. MUÑOZ. If you go back for 10 years, it is in the 86 percentile. There are just slight increases, but basically in the 86 percentile.

Senator KERREY. Let me ask a couple more questions about compliance, if you do not mind, Mr. Chairman.

Senator SHELBY. Go ahead.

Senator KERREY. Then I will shut it off.

You have reduced staffing activities in the detection of unreported income in automated collection in 1996. Can you tell us the impact it will have on revenue generation in 1996 and 1997 from that?

AUTOMATED COLLECTION

Mr. MUÑOZ. For the automated collection, that has to do with—the main thing that we found out in compliance is—there are several areas, but one of them has to do with the customer service or the information that we give to the taxpayer once they contact us

or have questions about their return or they are contacting us as to how they can pay their taxes.

The automated collection system is a quick way of notifying the taxpayer if there is a deficiency, and we found out that the quicker the notification to the taxpayer of a shortfall, the quicker there is a resolution of that. We also have discovered that the longer that is—and 180 days seem to be sort of a key date—more than 6 months—then the less likely the taxpayer will be in agreement with the IRS or the less likely that they will be able to pay it.

Senator KERREY. But did you not reduce staffing in undetected income?

Mr. MUÑOZ. Sir?

Senator KERREY. Are you not proposing staff reductions in unreported income and automated collections?

Mr. MUÑOZ. In automated collections, again when we have all the efficiencies built in, it is supposed to produce productivity savings. We would rather not have reductions if we did not have the tight budgets that we now have. So, there is some shifting around of our FTE's, but in that area it is because we expect some productivity savings from our automated collections system.

Senator KERREY. I would appreciate a follow-on not today but in writing, if you could. I am trying to accumulate some understanding of what is going on in the compliance area. The last question that I have got is that——

Secretary RUBIN. Could I add one comment, Senator?

Senator KERREY. Sure.

Secretary RUBIN. We will get back with an analysis which I think is what you are asking for. I think it is an interesting question.

I think there is a larger issue here, though. Independent of scoring—you asked the question about scoring. It is not scored I do not believe. But there is an underlying reality. I have heard finance ministers from other countries talk about tax compliance in their countries and they say they think that it works here—and it tends, as you know, to work a lot less well elsewhere. One reason they said may be cultural, but another set of reasons is people expect the enforcement apparatus to be in effect here.

I think one of the concerns one could have is that as you make the kinds of cuts that the House mark envisioned at least, you could reduce the perception at least over time of enforcing the tax laws such that you could begin to have an impact on this voluntary compliance. That would be I think a very serious problem.

TAX COMPLIANCE

Senator KERREY. The last question, Mr. Secretary. Do we have a potential problem here in that you are asking for a $359 million increase for compliance in this new initiative, but there is in the budget a proposal for a $41 million/835 FTE reduction which I presume, unless you say otherwise, is being asked for by OMB.

If we do not provide the increased $359 million, which is going to be tough to do given the scoring that is credited us, is it possible we are going to end up with a $41 million reduction in compliance? That is the net effect, is it not?

Mr. MUÑOZ. You are correct, Senator. Our budget was built around the expectation of the $359 million. We had strong support, obviously, from the administration on this.

Secretary RUBIN. But I believe, George—correct me if I am wrong—that that was going to be above the line. Right?

Mr. MUÑOZ. No; the $359 million is within our budget, and for that reason we felt that the $41 million would not render too much of a sacrifice if we did have that $359 million. If we do not have the $359 million, the Senator is correct in saying that there is going to be less revenue generation through our agents, and that is the concern that the Secretary expressed.

Senator KERREY. Thank you. Thank you, Mr. Chairman.

TAX SYSTEMS MODERNIZATION

Senator SHELBY. Mr. Secretary, I will follow up on some of the tax systems modernization.

As you well know, the General Accounting Office has been, I would say, more than a little critical over the years of the progress the IRS has been making in the tax systems modernization program. In the fiscal year 1996 Treasury appropriations bill, the committee directed the IRS to review its operations and to report to Congress on four specific criteria. The committee also requested the GAO to do an updated review of the progress made with regard to TSM.

The Department has indicated that several problem areas have been identified and that corrections are under way and that the tax systems modernization will stay on course.

The GAO, on the other hand, has indicated that several primary changes must be effected before there can be any hope, Mr. Secretary, of the program doing what it is supposed to do.

Based on the Department's assessment, as well as those of the GAO, could you outline briefly what the Department hopes to do in the short term to fix the problem?

Secretary RUBIN. Yes; I will give you my view, Mr. Chairman, and it really is a view based on having experience in this sort of thing before I came here, though I am not a systems expert.

But I think the critical thing to do is to get in place—do the things actually I outlined in my oral testimony—get in place some sort of an oversight function in which you have a very small number of people who are able to focus on the decisions that have to be made, both strategic decisions and the investment decisions, and then give them a real businesslike evaluation. I think we are very fortunate in having a Deputy Secretary who was able to do that, and we have now put that in place.

I said to him, at least when I first started to come to grips with the magnitude of the problem, that I thought the key within the IRS was to find the right CIO and I also thought it would be extremely difficult to find somebody. We were very fortunate because we did find somebody who dealt with issues of this magnitude in New York and, for various reasons of professional challenge, was willing to take this on and he is now with us.

I think that we do need to go to considerably more out-sourcing as I know your committee has felt and your House colleagues.

Senator SHELBY. Senator Kerrey has really led the charge on this.

Secretary RUBIN. Well, I think he is right. I think he is right, but I would say with virtual absolute assurance that you are not going to be effective in doing that unless you have internally the capability to manage.

Senator SHELBY. I agree with that.

Secretary RUBIN. And what troubles me—and these are very preliminary observations done by the people. I have not had a chance to analyze it at all or evaluate it, but what troubles me about what I have been told about the House mark is that it will not provide us with the internal capability that we need to manage the external process.

Senator SHELBY. But you know from your background in private business and what is going on from the perspective that you see today that there is a revolution going on in the software in the movement of money in the country.

Secretary RUBIN. Yes.

Senator SHELBY. What we fear up here—and I know you have seen some of this—is the IRS is falling behind there, is behind.

Secretary RUBIN. I agree.

Senator SHELBY. And we have talked to some of the vendors—and I do not own any stock in any of them—software people, and they say they are way behind. I know the IRS has been trying to do some things internally that some of us do not believe they are capable of doing internally. There are a lot of things, Mr. Secretary, you know from you coming from the private world, which is good I believe and healthy, that the Government cannot do internally. There is no way they can keep up with an exploding market in software and the changes. You can just witness what has happened in the last 5 years, what is going to happen in the next 10 I guess. You see our concerns and they have got to be yours.

TAX SYSTEM MODERNIZATION

Secretary RUBIN. Mr. Chairman, I share your concern and I do it from the framework of having had some experience with it.

Senator SHELBY. You have had a lot.

Secretary RUBIN. And I do not think we are going to correct this quickly. This has developed over a long period of time. It is not going to get cured quickly, but I think that we are going to be decimated in terms of our ability to cure it unless we can keep in place the critical mass that we need.

Based on what I have been told about the House mark—and I have not looked at this myself—I am reacting to other people's very preliminary conclusions.

Senator SHELBY. Critical mass is a lot of employees? Is that what you are talking about?

Secretary RUBIN. Critical mass is an adequate number of appropriate employees to carry out a function.

Senator SHELBY. But would a tax modernization system not, we would hope, do away with the need for so many employees?

Secretary RUBIN. Over time, Mr. Chairman, that is absolutely right. But one of the things I discovered in my private sector experience, when I thought we would be putting in all these systems

and greatly reducing our work force, is that you do become more efficient, you become more customer effective, but you do need a substantial internal capability, if you are going to manage this. Furthermore, as the Assistant Secretary said, you got a constantly growing demand because the economy is growing, the number of tax filings increase, and so forth.

And it takes time. But I do not think that starving the process at the beginning is going to get you where you want to be at the end.

Senator SHELBY. The IRS has indicated its established milestones. Is that what you call them?

Secretary RUBIN. Yes; that is what they call them.

Senator SHELBY. Milestones for corrections of all the problems. The IRS in the past has had problems meeting milestones.

Secretary RUBIN. I agree.

Senator SHELBY. How do you assure us that they will meet them in the future?

Secretary RUBIN. I do not know that I or anybody in this world could assure you, but I do think that what I can assure is there will be a focus from the departmental office that in my judgment at least will enable us to far better manage the process than would otherwise have been the case. I think you will find, as is true of any systems development I have ever heard of—and I know enormous numbers of people who have done this in very large private sector financial service institutions—that there will be times when you will miss milestones. There will be a time when you go off course. Systems development in this kind of activity is a very difficult sort of process, but I think we have put in place the processes now that over time will get us back on track.

Senator SHELBY. But to really bring in a tax modernization program, are you not really going to have to go to the outside?

Secretary RUBIN. Yes.

Senator SHELBY. To the marketplace?

Secretary RUBIN. You have to go to the outside, Mr. Chairman, but we have to be able to manage the outside from the inside.

Senator SHELBY. A lot of training on the inside. I know that.

Secretary RUBIN. It is more than training. It is managing from the inside.

Senator SHELBY. Well, management and training.

Secretary RUBIN. Yes; but I keep emphasizing management because the people inside will know what business purposes that you need to serve and they will have a different sense——

Senator SHELBY. Will you need a different type manager? Or at least they are going to have to be trained.

IRS COMMISSION

Secretary RUBIN. I think that is exactly right. You need people who combine technical capability and business sense. I believe that in our new CIO we have such a person, and from what he tells me, he believes there are other people in the IRS like that, and I think we can solve that problem over time, but not if we starve the process at the beginning.

The other thing that I think can contribute substantially is the new IRS commission. I think it does give us some new people we

can work with who are independent of the IRS and of Treasury and can bring some common sense to this.

Senator SHELBY. How much money have we spent on so-called tax system modernization? Senator Kerrey had a number one time. It is a big number.

Secretary RUBIN. You mean over the last several years?

Senator SHELBY. Yes.

Secretary RUBIN. It is a very big number.

Senator SHELBY. A big number.

Secretary RUBIN. It is a big number.

Senator SHELBY. And what has really come out of it? Something had to.

Secretary RUBIN. Oh, yes; Assistant Secretary Muñoz can give you a better list, but we now have electronic filing of various kinds. We have an ability for people to call in and get their problems solved in a phone call, and the reason you can do that is that the person on the IRS side of the phone call has the ability now to call up all kinds of information that they could not used to do. We have Internet. I think we had 55 million hits on the Internet this year. Well, it is a lot of hits.

Senator SHELBY. That is a nice beginning, is it not?

Secretary RUBIN. Yes, Mr. Chairman; there is no question what we need to do, and I think a number of us have sort of an understanding of what in the broad sense——

Senator SHELBY. It is a different world.

Secretary RUBIN. It is a different world, but if we starve this thing now, we will not get to that world. I think that we will have a nonfunctional IRS down the road.

Senator SHELBY. You mentioned critical mass a few minutes ago. If we did not have so many little things, if we had like a flat tax system, we would not need as many people and we could cut down on expenditures.

Secretary RUBIN. Oh.

Senator SHELBY. It might be easier.

Secretary RUBIN. I think you would have other problems. You know, if the Titanic hit the iceberg, you would not have various problems on the Titanic, but unfortunately——

Senator SHELBY. Mr. Secretary, I know you have a cabinet meeting at 4 o'clock. It would be very interesting. None of us have been invited. [Laughter.]

But I am going to follow up on the IRS records. We will follow up with a letter and we will have your people pick it up today.

But we will also follow up with a second part of a question there. Who in the Treasury—you, your predecessor, the Deputy, Assistant Secretaries, and so forth—have any of these people requested an IRS file from the Internal Revenue Service on any Member of Congress, on any staffer at Congress, on any of the committee employees, and so forth during your tenure or your predecessor's tenure? That would be interesting too. I am not talking about people who would be under investigation by the Justice Department. We are talking about other things.

Secretary RUBIN. Let me respond again because I think there may be a slight implication in the question, and I want to make sure I respond to that.

We are extremely careful in all of these respects both on the Treasury side and the IRS side, and we will take a look. We will respond. We will go back several predecessors, myself, my predecessor, his predecessor, and so forth. But I think you will find in this administration at least that the probability of that having happened is remote at highest.

Senator SHELBY. We hope so. We hope it did not happen, but we were all shocked at what happened with the FBI files.

Thank you for coming.

Secretary RUBIN. Of course, we do not know yet what happened with the FBI files until the investigation is complete.

Senator SHELBY. We have got a good indication from what the FBI Director said and he is on the inside. We know.

Thank you.

Senator KERREY. Mr. Chairman, could I just——

Senator SHELBY. Excuse me. Go ahead.

Senator KERREY. I have just a couple of quick questions, and I know you have got to get out of here.

Secretary RUBIN. That is OK.

TAX SYSTEMS MODERNIZATION

Senator KERREY. But one of the things that I would like to have you talk to me about and respond to is this unobligated balance issue that we have got with tax system modernization. We are going to be coming up in very hard discussions, both ourselves, and eventually with the House in conference, and one of the questions that I need to get answered is whether or not we should delay these purchases. I think it was a category 3 or 4 that Assistant Secretary Summers provided us in a letter of June 7, and it may be that there is a way for us to work out this question of fencing and the questions that have been raised as a result of the GAO evaluation since then.

One quick question. Again, it does not have to be answered now. It was asked by Senator Byrd that I ask you to provide for the record a detailed and up-to-date account of the project of the Bureau of Public Debt in Parkersburg.

Secretary RUBIN. Parkersburg, WV?

Senator KERREY. Right. Parkersburg it says here.

Secretary RUBIN. I am not unfamiliar with it. Senator Byrd asked that you say?

Senator KERREY. Yes.

Secretary RUBIN. OK. I would be delighted to respond.

Senator KERREY. Senator Bond I do not believe asked me that. I knew it started with a B. [Laughter.]

Highlighted benefits of integrated communications, administrative support, and automated systems development and support in one location.

Secretary RUBIN. A very important project. We will respond.

[The information follows:]

CONSOLIDATION OF THE BUREAU OF THE PUBLIC DEBT SUMMARY REPORT—FEBRUARY 1996

Early in 1991, Bureau of Public Debt management announced its intent to consolidate nearly all of its operations in Parkersburg, West Virginia. What follows is a summary of how that consolidation was conducted and an assessment of the de-

gree to which consolidation achieved the results projected when the decision was made.

OVERVIEW

The consolidation of Public Debt operational offices in Parkersburg, West Virginia, was an initiative of Public Debt's senior management developed during its annual long range planning in late 1990. The decision to consolidate was viewed by many as atypical for a government organization since the Bureau was not experiencing significant problems that were generating outside forces pressing for change. Despite this, Public Debt management had assessed that consolidation provided the best opportunity to reduce costs and improve performance.

The primary purpose of the consolidation was to substantially reduce costs by 1) eliminating the duplication of large administrative staffs in two locations, and 2) conducting operations in a lower cost location advantageous for staff recruitment and retention.

At the beginning of consolidation in 1991, it was estimated that 103 of the 721 positions being relocated would be saved by eliminating duplicate administrative operations. The initial annual savings, primarily attributed to the decrease in staff size and resultant space needs, was estimated at $5.9 million.

However, the process of consolidation provided the impetus for even more significant changes and savings than originally promised. As consolidation progressed, managers completely re-examined the resources needed to accomplish the mission of each of their operations. The organizational charts were "wiped clean" for formation of streamlined functions which could accomplish the same work with fewer people.

As a result of this comprehensive re-examination of relocating operations, 42 percent (300) of the 721 positions initially targeted for relocation were eliminated in the consolidation process. These reductions occurred across the board in those functions relocating, which included offices responsible for providing administrative and automated information systems support, those responsible for accounting for the public debt, and those involved in issuing and servicing marketable and special purpose securities.

This remarkable reduction in staff has considerably increased the savings attributable to consolidation. Elimination of 300 positions will save over $12 million annually in salaries and benefits costs. Such significant staff reductions have made possible large space reductions which provides an additional savings of over $3 million annually. Consequently, savings of over $15 million annually are directly attributable to consolidation . . . far beyond the $5.9 million annual savings projected when the consolidation was proposed.[1]

While the savings from consolidation have been far greater than projected, the costs of accomplishing the consolidation have been substantially less than projected. It was originally projected that during the four years that consolidation was underway it would cost approximately $11.7 million to move the households of relocating personnel, move office furniture and equipment, reconfigure space in Parkersburg, and pay for other miscellaneous expenses. It is now clear that the actual cost for these activities was far less . . . only $7.6 million.[1]

Beyond the tangible cost savings, Public Debt believes the consolidation is producing other more difficult to quantify benefits. Having the preponderance of its operations in one location is enabling day to day operations to be accomplished more effectively. Communication, administrative support, and ADP support (especially systems development) are all made easier by having nearly all operations located together. In addition, Public Debt's competitive hiring advantage in Parkersburg is enabling managers to hire and, more importantly, retain personnel with more experience and education. These intangible benefits are nonetheless real and will result in better customer service in the long run. They will also enable Public Debt to adapt more quickly and effectively to technological and other changes that are a constant in today's environment.

By any recognized business standard, the consolidation of Public Debt's operations is a success and substantiates that the original decision, while difficult because of its impact on people, was an appropriate business decision. The following sections provide more details on how the consolidation was accomplished and more specifics on costs and savings.

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[1] See Attachments 1 and 2 for graphic illustrations of costs/savings.

IMPLEMENTATION PLANNING AND POLICY

Public Debt's consolidation is a very clear example of what can be accomplished if senior management is willing to take aggressive action with its attendant risks and problems rather than assuming a caretaking and reactive posture. A review of the history of the consolidation also reaffirms the importance of sound planning in an endeavor of this magnitude.

On March 21, 1991, Commissioner Gregg announced that most of the Bureau's operations would be consolidated in Parkersburg. The consolidation was planned for completion by the end of 1995. Immediately following the Commissioner's announcement, a "Consolidation Team," which included NTEU participation, was formed to develop an implementation plan and schedule to accomplish the consolidation. This focused task group invested six months in developing the policies and procedures to be followed in conducting the consolidation, and in planning many of the details. All aspects of the impact of consolidation on employees, facilities, and finances were taken into consideration.

In October 1991, the "Consolidation Plan and Initial Relocation Schedule" was published. The document clearly outlined all the aspects of the consolidation so that employees would have as much advance notice as possible as to when they would be required to move, what their alternatives were, and what relocation benefits and outplacement assistance they could expect. An overall schedule was included which showed, by calendar quarter, which operations and which positions would be moved.

Although the Plan outlined when functions and types of positions would be relocated, individual employees were given 6-month directed reassignment notices to relocate when their position was to be relocated. The employees had 30 days from receipt of the notice to respond with acceptance or declination.

Maximum relocation benefits were offered for those choosing to relocate. For those who chose not to relocate, well-funded and well-organized outplacement assistance was available. Step by step processes were outlined for employees to follow applicable to their individual decisions.

To lessen the impact on employees who chose not to relocate, Public Debt implemented a policy that vacancies occurring in Washington in those operations which were not being relocated to Parkersburg would be routinely filled by employees choosing not to relocate.

In addition, management emphasized filling positions in Parkersburg during the consolidation, versus backfilling in DC, to avoid adding to staff in positions in DC which would later have to be relocated. As a result of this policy, only critical positions were filled in Washington during the consolidation. Those that were filled were done so under the condition that the employee hired agreed to accept directed reassignment upon the position relocating to Parkersburg.

In recognition that spousal employment would be a major issue faced by those relocating, the Bureau implemented a priority hiring policy for qualified spouses of those relocating to Parkersburg. Nine spouses of relocating employees have been hired as a result of this policy. To further assist spouses with the job search in Parkersburg, a personnel specialist contacted the larger businesses and plants in the Parkersburg area to identify job openings for which relocating spouses would be eligible. A list of these contacts was compiled and distributed to those interested.

All of these initiatives were published as a part of the Consolidation Plan, and management ensured steps were taken to accomplish all of the expectations stated. Personalized assistance was provided by staff and/or a contractor to facilitate all aspects of the consolidation for employees.

RELOCATING EMPLOYEES

Numerous actions were taken to assist those employees who decided to relocate to Parkersburg with their positions. A comprehensive "Guide to Relocation Allowances," tailored specifically for these employees, was developed and distributed by Public Debt staff. This booklet detailed steps necessary to accomplish a relocation, with or without family, and informed the employee of the costs which would be reimbursed by the government.

As a "safety net" for employees unable to sell their homes in the Washington area, a "Guaranteed Home Sale Program" was established whereby a contractor would purchase the employee's home if it was not sold within prescribed timeframes . . . if the property met the conditions under the government contract for such purchase. Reimbursements were offered to relocating employees to the maximum extent permitted by Federal Travel Regulations.

In addition to the written publication of relocation allowances, Relocation Coordinators were available in Parkersburg and Washington to answer any employee questions and assist with completion of forms necessary to initiate their move.

Public Debt's travel group and Relocation Coordinator in Parkersburg provided personalized assistance in locating temporary quarters, arranging movement and storage of household goods, and providing many other types of assistance to make the move easier for the employee. This group closely monitored each employee move and ensured preparation of accurate and timely relocation vouchers; kept the employees apprised of tax implications of reimbursements; and ensured the employee received all entitled reimbursements.

A Relocation Center was also established in Washington. The Coordinator in this Center provided guidance on the administrative aspects of moving as well as information on the Parkersburg area. The Center maintained current copies of Parkersburg area newspapers so that relocating employees could check for temporary quarters or housing availability prior to their househunting trips or move to Parkersburg. Also available in the Center was a booklet, compiled by Public Debt staff, to help the employee acclimate to Parkersburg. The booklet contained information on utilities, parking, vehicle licensing, recreation, specialty stores, and much more.

Another effort by Public Debt to assist relocating employees was the formation of an Informal Sponsor Program. This initiative consisted of recruiting volunteers in Parkersburg to assist individuals who had similar interests. Knowledge was shared on such activities as schools, churches, and other specific information on living in the Parkersburg community.

In the planning stages of consolidation, management estimated that 140 employees in positions affected by the consolidation would relocate. The final count of "affected" employees relocating is 111. In addition to these employees, 44 people were hired into affected positions in Washington and then relocated to Parkersburg. Some of the employees in this count are married couples—Public Debt has funded 153 moves in relocating people to Parkersburg from Washington during the consolidation.

It was originally estimated that it would cost $50,000 per employee (nearly $7 million in total) to accomplish employee relocations to Parkersburg. Costs incurred to date indicate the average cost per employee relocation has been $23,498. The total cost of relocating employees will not exceed $3.5 million. This is one-half of the cost originally anticipated.

Forty-six percent of relocating employees are minorities. This has resulted in adding to diversity in the work force in Parkersburg.

NON-RELOCATING EMPLOYEES

To assist those employees who chose not to relocate to Parkersburg, Public Debt contracted for an extensive outplacement program. This work was contracted as opposed to using Public Debt staff in order to ensure continuity throughout the consolidation time period.

At the beginning of consolidation, Public Debt contracted with Vantage Personnel, Inc., for a full range of outplacement services. To ensure that all affected employees were aware of the services offered, employee meetings and workshops were held to introduce the Vantage staff and the services available.

Vantage offered a variety of services geared toward helping employees conduct a successful job search, including but not limited to:

—Individual counseling with career transition planning
—Retirement counseling
—Job search training
—Interview training
—Job referrals to other Government and private sector employees
—Assistance in developing an effective SF–171 or resume

Vantage also maintained a walk-in job information center to give employees full access to current government and private sector vacancy information. The total cost of these outplacement services was over $1.1 million.

In addition to contractor efforts, a Bureau employee was appointed to work with the contractor to constantly assess the success of the program and to take other measures to assist employees in finding jobs. One such measure was to contact other government agencies to arrange for details of employees. This gave the employees exposure in other agencies and gave the agencies an opportunity to work with employees prior to making job offers. These efforts resulted in many employees finding jobs with other government agencies.

To help employees improve their marketability, Public Debt implemented a Skills Enhancement Training Program. The curriculum was determined through a needs assessment survey of employees as well as input from NTEU, OPM, and the Department of Labor. Courses were geared toward improving skills in written and oral communications and office automation.

In summary, extensive outplacement, training, and job search assistance were provided to those employees who chose not to relocate with their positions. The statistics provided in the following section reflect that the above efforts were successful in enabling the preponderance of employees to find new positions and otherwise cope with this major change. The outplacement success is particularly noteworthy considering that government-wide staff reductions were occurring at the same time.

Report on Employees Affected by Consolidation

The final status report on the 721 people who were in affected positions in Washington is as follows:

Continued Government Employment	331
Retirements/buyouts/resignations	167
Miscellaneous Separations	21
Relocated to Parkersburg	111
Reassigned to unaffected positions at BPD	47
Terminated for failure to relocate	44

FACILITIES AND RELATED ACTIVITIES

A significant task in completing the consolidation was the reassessment of space and facilities needs. As a result, space is being used more efficiently without adversely affecting operations. To accomplish needed space changes, excess space in Washington had to be identified, furniture and equipment removed, and the space released. Existing space in Parkersburg had to be reconfigured to house more people.

The Third Street building in Parkersburg was reconfigured to house the majority of the relocating positions in addition to the staff already located there. Functional office design with the use of systems furniture was employed to improve the office environment and accommodate the additional staff. In effect, that entire facility was internally redone.

Despite reconfiguration, the existing buildings could not accommodate all relocating functions. Additional space was required in Parkersburg to house one of the relocated functions as well as staff of the Chief Counsel and required training rooms. The request to GSA for additional space in Parkersburg resulted in Public Debt leasing a new building with 28,750 square feet of space. The construction of this building provided high quality office space at a reasonable cost for those relocating.

As a result of all the above activities, Public Debt's total space needs after consolidation have been reduced by 106,754 square feet at an annual savings of over $3.3 million. If consolidation had not taken place, Public Debt would have continued to require 465,818 square feet to house employees in Parkersburg and Washington, DC, at a total cost well in excess of $8 million annually. The comparative post-consolidation space requirement is 359,064 square feet at approximately $5.6 million.

NOTE: The average cost of Public Debt office space in Parkersburg is $14.98 per square foot as opposed to $31.56 per square foot in Washington. Thus, savings are realized by not requiring space in Washington, and are calculated by square footage savings (106,754) times the rate per square foot ($31.56) in Washington.

The relocation of offices required movement of office furniture and equipment from Washington to Parkersburg. By scheduling movements of office equipment in coordination with personnel relocations, which required shipment of PC's and office files, we were able to keep the number of required shipments to a minimum. A Memorandum of Understanding with GSA was put into place for shipment via contractor for large moves at a very reasonable cost. When smaller shipments were necessary, a government leased truck was used.

A management analyst was on site in Washington during the consolidation to monitor inventory, take steps to excess unneeded furniture and equipment, and generally coordinate moves with the program offices. This effort kept costs to a minimum by avoiding unnecessary shipments and eliminating the need for staff to travel from Parkersburg to Washington to oversee all aspects of this part of the relocation. The total cost for furniture and equipment moves was only $110,000.

CONCLUSION

By the end of 1995, all functions had been successfully relocated to Parkersburg and by mid-February 1996 the employee outplacement effort was concluded.

The consolidation was completed on schedule and with substantially more savings and at significantly less cost than projected. Moreover, Public Debt management met its commitment that every effort would be made to support and assist employees during this transition. The Bureau is a stronger, more effective organization as a result of the consolidation.

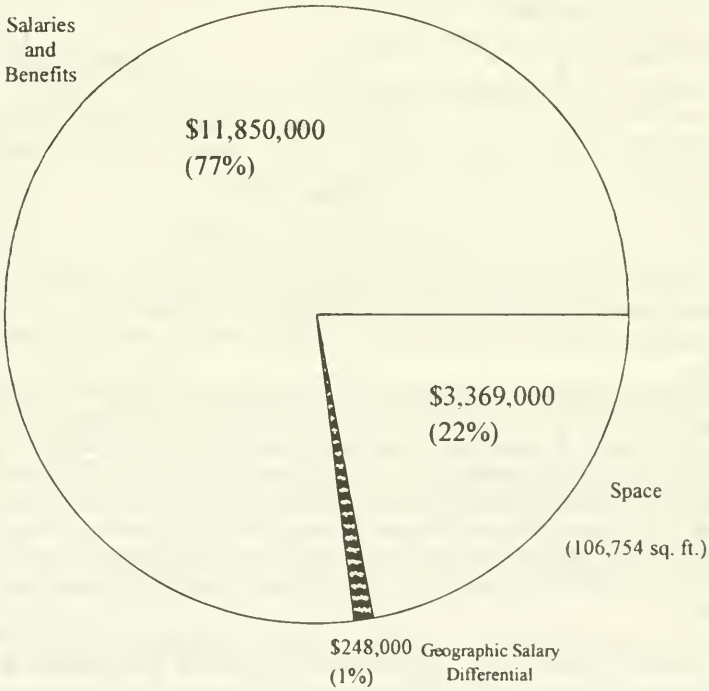
[ATTACHMENT 1]

DIRECT FINANCIAL Benefits from Consolidation

42% Reduction in Positions Needed to Operate Relocated Functions

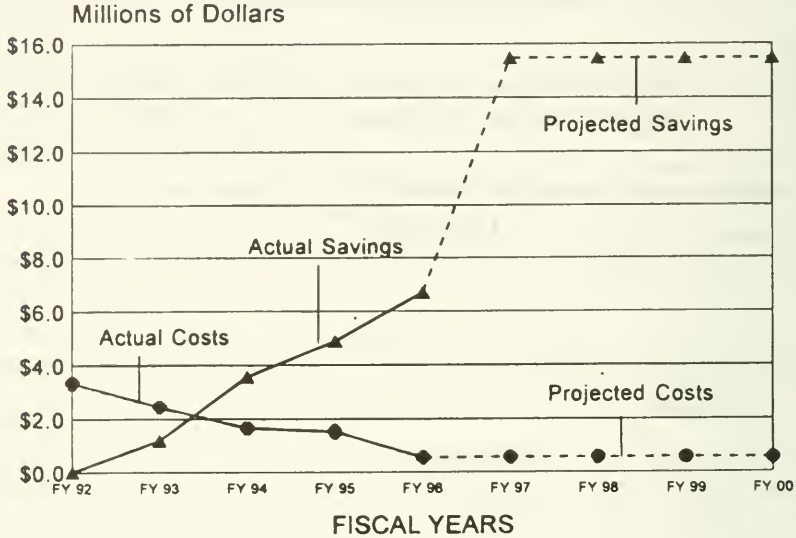
Positions Originally Targeted to Relocate:	720
Targeted Positions Eliminated:	300

Elimination of 300 positions results in total annual savings of $15,467,000



[ATTACHMENT 2]

BUREAU CONSOLIDATION



SECRET SERVICE INQUIRIES

Senator KERREY. I would like, Mr. Chairman, if I could, to supply some questions later for the Secretary to answer.

Senator SHELBY. Oh, Senator Bond, Mr. Secretary. I did not see him.

Senator BOND. I would hate to make the Secretary late for the picnic and the ice cream and the Cabinet meeting, but we have some standard questions that we want to find out about the Secret Service and the inquiries on the passholders list. We will submit those to you. We would like to find out about communications you had with the White House, if any communications came to you from White House, about the Secret Service E-pass files and the acquisition of FBI records on individuals who were indicated as inactive.

Secretary RUBIN. We would be glad to respond, Senator Bond.

Senator BOND. We will make that part of the record, and I ask if anyone in your office has received those communications. We will submit the rest of them for the record.

Secretary RUBIN. OK. Thank you, Senator Bond.

[The information follows:]

LETTER FROM ROBERT E. RUBIN, SECRETARY OF THE TREASURY

DEPARTMENT OF THE TREASURY,
Washington, DC, July 26, 1996.

Hon. RICHARD C. SHELBY,
Chairman, Subcommittee on Treasury, Postal Service, and General Government, Committee on Appropriations, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Thank you for your letter of June 20, 1996, enclosing a number of questions you raised with me at the Subcommittee's June 20 hearing. I appreciated the opportunity to appear at the hearing. I know that you share my respect for the Treasury Department and its bureaus, and that you share my commitment to supporting the Department's programs.

As Assistant to the President for Economic Policy, I saw firsthand how the Secret Service performs its protective mission for the President, the Vice President and their families. As Secretary of the Treasury, I have the honor of overseeing the Secret Service and working with them on a variety of matters. Over the years, my respect for the Secret Service has only increased. I am rightfully proud of all elements of the Secret Service's operations.

I want to be as responsive as possible to any Member of Congress, especially the Chairman of a Subcommittee that has jurisdiction over the Department. However, your questions concern matters that are the subject of a number of investigations, including one being conducted by the Office of Independent Counsel (OIC) Kenneth Starr. In light of the OIC investigation, it would be inappropriate for the Treasury Department to conduct a separate inquiry or otherwise take any action that might be construed as interfering with that investigation. I feel confident that you share this concern.

Within this context, the answers to the questions that you have sent regarding lists provided to the White House, are as follows:

1. Have you had an opportunity to review the Secret Service's responses to the questions Senators Grassley, Bond and I outlined in our letter to you on June 14? If you haven't, could you respond to the Committee?

As I stated in my testimony before the Subcommittee during the June 20 hearing, the Department's guidance to the Secret Service from the outset of this process has been to cooperate with all congressional committees and with the Independent Counsel. Since, as noted above, the Independent Counsel is conducting an investigation of this matter, it would be inappropriate for the Treasury Department to conduct a separate inquiry or otherwise to interfere with the OIC investigation. I am certain that the Secret Service's responses will be fully considered by the Office of the Independent Counsel and fully responsive to your Subcommittee.

2. Do you support the findings of the Secret Service?

3. Do you believe that the Secret Service has undertaken to provide the most accurate information they can?

As I have stated previously, it would be inappropriate for the Department at this time to conduct an investigation such as the one being conducted by the Independent Counsel. I regard the Secret Service as an exemplary law enforcement organization which is served by the finest professionals.

4. Can you assure the Committee that the Treasury Department is undertaking everything in its power to ensure that the Secret Service is not wrongly blamed for providing inaccurate information on who had access to the White House?

I have the greatest respect for the Secret Service and its employees; it is an excellent law enforcement organization. I am an unwavering advocate of its operations and purposes. The Department's handling of this matter is fully consistent with the respect we have for the Secret Service.

5. Would you say that the Secret Service has a good reputation in law enforcement and security?

Without question, the Secret Service is an exemplary organization and is served by the finest professionals.

6. Isn't the Secret Service entrusted with the duty of ensuring only those individuals who should properly have access to the White House are given access to the White House?

The Secret Service is responsible for protecting, among others, the President, the Vice President and their immediate families, as well as the White House. As part of fulfilling those responsibilities, the Secret Service permits entry to the White House only for those individuals with proper authorization.

7. Would the Secret Service have any reason that you are aware of to misrepresent who had access to the White House or recreate records to reflect that someone has access to the White House when in fact they did not? . . . Wouldn't that compromise their ability to ensure the security of the White House complex?

As I stated in response to your earlier questions, the Independent Counsel is conducting an investigation, and the Treasury Department is cooperating with that.

I am certain that the Secret Service would not do anything to compromise its ability to ensure the security of the White House complex.

8. Did you or anyone in your office, at any time, communicate with the White House about the Secret Service passholders list controversy?

To answer fully your question, the Department would have to conduct an investigation. As I noted, the Treasury Department has not conducted and is not now conducting an investigation.

9. Did you, or anyone in your office, communicate with the Secret Service about their passholders list and its possible use or misuse? . . . If yes, when, whom and why?

Enclosed is a June 12, 1996 memorandum from Treasury's Chief of Staff requesting that the Secret Service respond to a letter from Senators Shelby, Grassley and Bond inquiring about Secret Service procedures and guidelines concerning passholder lists. To answer fully your question, the Department would have to conduct an investigation. The Treasury Department has not conducted and is not now conducting an investigation.

10. Did you direct the Assistant Secretary for Enforcement to either contact the Secret Service or the White House on this FBI files controversy?

No.

11. Are you aware or any other requests for information or files from the White House to any other of the Treasury Bureaus? . . . Have you or other officials of the Department requested, or have been requested to seek such information?

12. Have any requests from the White House been made to the Internal Revenue Service for files or tax information? . . . On employees of the Reagan or Bush Administrations? . . . On Members of Congress or staff?

13. What is the policy of the Department and the Internal Revenue Service with regard to confidentiality of tax records and returns? . . . Who has access to individual files? . . . Do any officials in the Department, other than IRS officials, or the White House have legal authority to review those records? . . . Are there statutes which apply to the confidentiality of tax returns and records? . . . What procedures are in effect to ensure these statutes are adhered to?

We believe that all of these questions (11., 12. and 13.) seek information as to whether there have been attempts to access information in taxpayers' files maintained by the Internal Revenue Service. Therefore, we have referred these questions to the Commissioner of Internal Revenue for response. I understand that the Internal Revenue Service already has provided information related to these questions.

The Treasury Department's policy is to adhere strictly to the statutory restrictions on the disclosure of returns and return information under section 6103 of the Internal Revenue Code of 1986. In particular, section 6103(h)(1) authorizes disclosures by the Internal Revenue Service to Treasury Department officers and employees whose official duties require such information for tax administration purposes. We also have asked the Commissioner to provide you further information concerning the procedures under which such disclosures are made.

I appreciate this opportunity to address your questions. I know that you share my respect for the Treasury Department and its bureaus, and that you share my commitment to supporting the Department's programs.

Sincerely,

ROBERT E. RUBIN,
Secretary of the Treasury.

Enclosure.

MEMORANDUM FROM SYLVIA MATHEWS, CHIEF OF STAFF

DEPARTMENT OF THE TREASURY,
Washington, DC, June 12, 1996.

For: Eljay Bowron, Director, United States Secret Service
From: Sylvia Mathews, Chief of Staff
Subject: Congressional Request for Information

This is to follow up on our conversation last night. Yesterday, the Secretary received two letters concerning the process for clearance of individuals into the White House and access lists at the White House. We have forwarded these letters to you for direct response by the Secret Service.

The letter from Senators Shelby, Grassley and Bond requests that they receive a briefing on the procedures and guidelines concerning passholder lists. We would like for the Secret Service to brief Main Treasury after you hold that briefing.

I know as always you will work cooperatively and effectively with the Congress on these requests. We will wait to hear from you regarding that briefing. Thank you.

SUBMITTED QUESTIONS

Senator SHELBY. Mr. Secretary, we appreciate you coming. We know you have that Cabinet meeting. We also have a number of questions for the record other than those I indicated. You have always been responsive in the past.

Secretary RUBIN. Good.

Senator SHELBY. Thank you.

Secretary RUBIN. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

Tax Systems Modernization

Mr. Secretary, to say I am very concerned about the current status of Tax Systems Modernization is an understatement. It appears to me that hard choices are going to have to be made. Some of them will not be popular in some quarters, but a decision to not make major adjustments appears to assure continued failures.

Question: Does the Department plan to make those difficult decisions or are we going to continue to see little improvement?

Answer: The Department is also very concerned and intends to take whatever actions are necessary to correct the problems associated with IRS Tax Systems Modernization. We are working with the Commissioner and the senior staff at IRS to get this program back on track. To oversee this task, we created a Modernization Management Board, which operates as an executive level "board of directors," chaired by the Deputy Secretary and including representatives from Treasury, the IRS, and OMB. It is charged with making the final decisions on IRS Modernization programs. We have also consulted with GAO on how best to improve TSM. Our efforts are based on that consultation.

In May, the Department provided to Congress a detailed report on our action plan for correcting TSM which represented our best thinking at the time. Shortly after the reports were released, IRS's new Chief Information Officer (CIO), Arthur Gross, who had arrived after the reports were drafted, began a review of several key projects. As a result of that review and further consultation between IRS and Treasury leadership, the Department took action to lower our FY 1997 budget request for TSM from $850 million to $664 million. We are currently working closely with our Subcommittees in the House and Senate to reformulate our plans based on more constrained budget amounts.

Intense scrutiny of IRS's progress on the development of TSM projects and how those projects fit into the Service's long-range modernization needs will continue. The IRS's CIO has instituted "readiness reviews" to ensure that no project is started or continued without solid evidence that it can be executed successfully on time and within budget. We plan to update Congress as we make progress in creating a focused modernization effort that produces results.

IRS Private Collection Initiative

The fiscal year 1996 Treasury bill provided $13 million for a pilot project utilizing private collection firms to track down "non-collectable" tax debts. The Internal Revenue Service was obviously not excited about this plan, but nonetheless has followed through. In fact just this week the IRS announced the award of a contract to five firms for the pilot. I expressed my concern to the Commissioner that despite the objections IRS had to the pilot, that it be structured in a manner which would not impede the possibilities for success. I assume the Department reviewed the proposal and the final contracts.

Question: Mr. Secretary, are you satisfied that the IRS has acted in good faith in preparing for this program?

Answer: I am satisfied that the IRS acted in good faith. The IRS procurement office issued a fully competitive request for proposals to over 700 collection agencies. The solicitation was structured in accordance with the Fair Debt Collection Practices Act, Taxpayer Bill of Rights, and all applicable disclosure laws. Thirty-three proposals were received in response to the solicitation with five contracts awarded. Ten debriefings were held with unsuccessful offerors and no protests were filed.

Question: This Committee is going to look at the results very closely. Will the Department be doing so as well?

Answer: Yes, IRS will be sharing with us the results of this pilot program and we will be reviewing it along with other approaches used by IRS to address the collection of delinquent tax debts.

Mr. Secretary, there have been many attempts to change the way Government operates the last few years. Despite the Administration's reinvention efforts and Congressional direction, the bureaucracy is slow to react. I am concerned that many Federal Government agencies and another of its employees have hunkered down in expectation that these changes are just a bad dream, and that if they wait long enough, it will all blow over. I think you will agree that this is not the case. Change is coming--either with or without cooperation.

Question: Are you seeing change come to the Department?

Answer: Yes, changes are occurring in many areas throughout the Department. The Internal Revenue Service (IRS) and the U.S. Customs Service are reinventing or reengineering the way they do business. Other bureaus, such as the U.S. Mint and the Office of the Comptroller of the Currency are improving their business processes. The focus of these changes is to make things easier, better and more responsive to the demands of the American public. To ensure that our operations are more customer service driven, Treasury has set customer service standards covering 75% of our major programs and are committed to publishing standards covering the remaining 25%.

Question: Can you cite some successes?

Answer: In 1996: totally paperless tax returns were just a phone call away for 2.8 million taxpayers using TeleFile, the IRS' file-by-phone program; taxpayers had the option, for the first time, of having IRS directly deposit their tax refund into their checking or savings accounts; Federal and State benefits will be issued through a plastic card, much like a credit card; automated systems are being tested along the

southwest border to electronically inspect and expedite the processing of low-risk, frequent border crossers; and Benjamin Franklin got a face lift on the $100 bills to combat counterfeiting and maintain the security of the nation's currency in the face of new technologies.

Question: How about problem areas?

Answer: One difficulty that has been encountered, a difficulty shared across all major change efforts, is adequately handling the human factors involved in substantial transformation. We have sought to assist employees in adjusting to these significant changes in a variety of ways, including: improved communications using advanced technology; training our people in new skills, processes, and procedures; and other techniques, such as wide scale employee surveys in several of our bureaus. The Mint, most notably, has received recognition for its efforts to address the human side of large scale change.

Question: Have there been lessons learned which are being applied to overcome some of the obstacles that currently exist?

Answer: In an environment of ongoing change, we have learned the importance of close communication with our customers, employees, unions, the Congress, and other stakeholders, both to avoid obstacles and to resolve problems speedily when they arise. By demonstrating our ability in making integral improvements to our systems, work processes and customer service, we are building a foundation of trust with our customers and stakeholders.

Debt Collection Initiative

Question: The Omnibus appropriations bill which was signed by the President earlier this year included debt collection language the administration and many members of Congress have been seeking for years. The legislation designated the Financial Management Service as the focal point. Has FMS begun to work with those agencies designated to cooperate on collections?

Answer: Yes, the Financial Management Service is working with the agencies on several fronts. FMS is working with and through the Federal Credit Policy Working Group, established in the late 1980's and chaired by the Office of Management and Budget, to implement the new law, including asking this group to review and comment on FMS-proposed standards and regulations. In addition, FMS is also working with the agencies in developing standards for designating debt collection centers and with the affected non-Treasury disbursing agencies of Department of Defense and U.S. Postal Service on implementing the offset program. FMS has published an implementation plan, which includes a schedule for publishing regulations and standards and for meeting individually with the agencies to discuss referring debts for administrative offset and cross-servicing. These meetings have already begun. FMS is also holding a series of conferences, throughout the country between August and December, to discuss the impact of the legislation on government wide debt

collection and implementation plans. FMS and the agencies are working cooperatively on these multiple fronts to ensure the successful implementation of the Debt Collection Improvement Act of 1996.

Question: Is FMS getting the cooperation it should from those agencies?

Answer: Yes, the agencies have been very cooperative.

Question: Funding is obviously an issue. No funds were included in the fiscal year 1996 Bill for this purpose because legislation had not yet been enacted; nor were funds requested in the fiscal year 1997 budget. How much funding is necessary to get this effort started?

Answer: Although these costs are still being reviewed, it is a clear indication that we need the increase requested. Such costs as equipment, systems development, and public awareness campaign activities are estimated to exceed $13 million over the next several years. Funding is included in the FY 1997 request for implementation. At present, we do not have an estimate of our funding needs beyond FY 1997, but we are working to develop an estimate in conjunction with our FY 1998 budget request.

Question: How much will be necessary in fiscal year 1997 to meet the needs of the program?

Answer: The Fiscal Year 1997 Budget included a Debt Management initiative totaling $4.242 million which is critical to ensuring that provisions are implemented in a timely manner.

Question: How does the Department plan to meet the funding issue?

Answer: The Department is making every effort possible to transfer funds to FMS in fiscal year 1996 as provided by the Debt Collection Improvement Act of 1996 to begin to meet program needs and start-up requirements. In late July 1996, the Department made available to FMS approximately $6.56 million from surplus Bureau of Public Debt funds which will be used to procure program resources for debt collection activities.

Church Fire Supplemental Request

Late Tuesday, The President submitted to the Congress a Fiscal Year 1996 Supplemental Appropriations request for $12 million for the Bureau of Alcohol, Tobacco and Firearms to further investigate the rash of church fires in the South. The Administration proposes to fund this initiative by providing $8 million from the Secret Service and $4 million from the Treasury Forfeiture Fund.

Question: Does Secret Service have the funds available to give up $8 million? Where will the funds come from?

Answer: This request has been overtaken by events. A $12 million FY 1996 supplemental was provided to ATF in the FY 1997 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Bill (H.R. 3603) that was signed into law (P.L. 104-180) on August 6, 1996. Therefore, ATF now has FY 1996 funding for these investigations.

The FY 1997 President's Budget requested that $8 million of the FY 1996 Candidate/Nominee Protection funds be reappropriated for Presidential campaign protection costs in FY 1997. Since then USSS has provided the Appropriation Subcommittee with an FY 1996 reprogramming request that would use some of that FY 1996 surplus to fund unexpected and unbudgeted extraordinary protective costs.

Question: The Presidential campaign hasn't really heated up, how are the estimates being made?

Answer: Secret Service anticipated a lengthy Presidential primary process with many candidates contending for nomination. In actuality, there were few candidates and most dropped out early, as the Presidential candidates were chosen very early on in the primary process. This resulted in a surplus of funds. USSS has since provided the Appropriation Subcommittee with an FY 1996 reprogramming request that would use some of that FY 1996 surplus to fund unexpected and unbudgeted extraordinary protective costs.

Question: What happens if we approve the move of funds from the Secret Service and we find out in August or September that there is not enough money available to carry out the Secret Service's campaign responsibilities?

Answer: The $8 million amount was a conservative estimate.

Question: I am also concerned about the funds which are to come from the Forfeiture Fund. Three weeks ago the Committee approved the Department's plan to distribute excess funds to bureaus for law enforcement purposes...How will this proposal impact the Department's earlier decision on distributing these funds?

Answer: No impact was anticipated. Only those Forfeiture Funds not committed to the law enforcement purposes approved by the Committee were to be used for the funding offset.

Question: Did the White House or the Office of Management and Budget consult the Department about the offsets?

Answer: Yes. OMB and the Treasury Department worked closely in identifying the offsetting fund sources.

Treasury Law Enforcement

The President's fiscal year 1997 budget includes several initiatives for Treasury Law Enforcement agencies. I hope that these requests are not just election year increases, which will fade next year.

Question: If the positions proposed for the Treasury agencies are approved, will these be new positions, or will we funding positions which have been unfilled in the past?

Answer: The FY 1997 Budget proposed new positions to implement important Administration initiatives. The budget does not endorse the maintenance of unfilled positions because such action would distort staffing levels.

Question: Do the Bureaus have a plan to begin hiring early in the fiscal year, or will these positions be filled later in the year?

Answer: Yes, the Bureaus have plans to begin hiring early in the fiscal year. In order to accomplish this goal, they have had several meetings with OPM to facilitate law enforcement hiring needs such as delegated examining authority to hire Treasury law enforcement agents.

Question: Can the Federal Law Enforcement Training Center meet the training needs of the Treasury Bureaus, as well as the other agencies which utilize FLETC's facilities and instruction?

Answer: Based on the current fiscal year 1997 basic training projections of the FLETC's participating organizations which includes the Treasury bureaus, and assuming 100 percent of those projections will actually materialize, the FLETC would experience a facility capacity shortfall of approximately 28,500 student weeks of basic training. It is important to note that with this projected level of unfulfilled demand for basic training, there is little if any ability to accommodate much needed advanced training programs for journey level personnel. Nonetheless, based on previous trends, the projections are likely to be revised downward during the fiscal year thereby making possible the scheduling of remaining basic and advanced programs.

Banking Issues

Currently Federal banking agencies are required to coordinate examinations with the appropriate State bank supervisor. The CSBS has proposed to allow federal banking agencies the discretion to delegate appointments to State banking agencies to manage a unified exam. I realize that this is a Federal Deposit Insurance Corporation issue, however, I would be interested in your views on this matter?

Question: Based on your experience, do you have a position on this issue?

Answer: Section 305 of the Riegle Community Development and Regulatory Improvement Act of 1994 requires the four federal banking agencies to coordinate with each other in conducting examinations and to work to coordinate with the appropriate state bank supervisor. The objective of this procedural coordination is to minimize the disruption occasioned by examinations. We believe that the relevant federal banking agencies have done a good job of coordinating examinations with the states. We do not believe that the proposed change is necessary, and we are concerned that it would tend to complicate -- rather than simplify -- the implementation of section 305.

Last year budget reconciliation included a proposal to amend the way payments due to the Resolution Funding Corporation were computed. Currently, Federal Home Loan Banks pay a two-tiered funding formula. The reconciliation proposal would eliminate the two-tier system and require a straight percentage of its net earnings, which I believe was tabbed at 23.7 percent. It is my understanding that Treasury supports this change.

Question: Is that correct? Do you have any comments on this issue?

Answer: Yes, Treasury supports changing the System's REFCorp obligation to a fixed percentage of income. At the same time, we continue to support comprehensive Federal Home Loan Bank System reform, and we believe that comprehensive legislation remains the best vehicle for fixing the System's problems, including the current REFCorp formula. Although we continue to work with Chairman Baker and others to develop an acceptable approach to System modernization, we have many concerns about H.R. 3167 in its current form.

QUESTIONS SUBMITTED BY SENATOR KERREY

Questions relating to the Internal Revenue Service

Question: Last year this Subcommittee had no choice but to reduce the IRS' budget by the $405 million included for the second year of the '95 compliance initiative. In FY 97, the IRS is proposing a comparable initiative costing $359 million and 3820 FTEs. As you know, this Subcommittee does not get scored any BA or outlay credit for the additional revenues expected to be generated from these initiatives. Has the $1.57 billion expected to be generated from this initiative been included in the President's calculation of the deficit for FY 97?

Answer: No. The $1.57 billion expected to be generated from the Revenue Compliance Initiative was not included in the President's calculation of the deficit for FY 1997.

Question: This initiative plans to use the more cost effective and productive call collectors to make the initial contacts. However, the initiative still includes an increase for revenue officers which are more costly and take more time to actually realize revenue. Why is the Internal Revenue Service proposing increasing the number of revenue agents?

Answer: The initiative proposes no increases for revenue agents or revenue officers. This initiative concentrates exclusively on contact via telephone or written correspondence (Automated Collection System, Correspondence Examination, Document Matching, and Service Center Collection Branch).

Question: The IRS is also proposing an increase of $40 million and 800 FTEs for document matching. Why did Treasury support this particular initiative?

Answer: The Department supported the document matching portion of the Revenue Protection Initiative because it was consistent with IRS' goal of contacting taxpayers primarily through correspondence and via telephone. These methods are much more cost efficient than the traditional method of dispatching field agents to contact taxpayers face-to-face and consequently, the revenue return per dollar spent is higher.

Question: What has been the result of the recent initiatives to increase compliance. In other words what level of compliance existed in 1988?, or 1978?

Answer: The voluntary compliance rate (VCR) is the percentage of the total income tax dollars due and owing that were paid voluntarily. The VCR is only available for those tax years that the IRS estimates the tax gap. There were no estimates of the income tax gap for tax year 1978. The VCR for tax year 1979 was 80 percent and for tax year 1988 the VCR was 82 percent.

Question: Why did IRS reduce staffing activities in the detection of unreported income and automated collection in FY 96? What impact will this have on revenue generation in '96 and '97?

Answer: Funding in the TLE appropriation for FY 96 was $284 million below the FY 95 appropriation (a 6.5 percent reduction), and $446 million below the FY 96 President's Budget request (which included two initiatives totaling $23.2 million). Thus, without the two initiatives, we were confronted with a budget deficit in the TLE appropriation of $423 million -- a 9.3 percent reduction.

In the TLE appropriation, 83 percent of our resources are related to labor. Thus, any strategy to address a $423 million shortfall must include labor as part of that solution. The TLE strategy for addressing this shortfall was to capture savings from a service wide TLE hiring freeze, cut as deeply as possible in "discretionary" categories, eliminate funding for the temporary limited appointment employees and reduce the tour-of-duty of the seasonal employees. The last action disproportionately affected

Document Matching and ACS, given the large number of seasonal employees these two functions traditionally employed. However, the impact to ACS was partially mitigated by a decision to detail to ACS 250 Collection Revenue Officers and 150 other Service Center employees.

We estimate the impact of all cuts to IRS in FY 96 will translate to approximately a $1.4 billion loss in enforcement dollars collected.

Question: Why is the IRS proposing a $41.2 million and 835 FTE reduction in enforcement activities at the same time it is requesting increases in this same area?

Answer: The cuts are from the Examination budget activity. Reductions are being taken in traditional, face-to-face programs (revenue agents, tax auditors). The Examination portion of the Revenue Initiative is for tax examiners in the service centers involved in correspondence audits -- a low cost, high yield program that is consistent with the IRS' efforts to emphasize up-front and early intervention.

Question: What will be the impact of this reduction if the increase of $359 million for the compliance initiative is not provided?

Answer: Without the revenue protection initiative (RPI), enforcement staffing in all compliance programs would be reduced. Although RPI includes 3,820 FTEs for enhancing service center and call site collection programs, this increase is partially offset by a reduction of 1,341 FTEs in traditional, face-to-face district enforcement programs. This "re-mixing" of enforcement programs is consistent with the IRS' long-term vision that emphasizes high-yield, less intrusive compliance programs.

Question: What is the explanation for this reduction, was it mandated by OMB?

Answer: The $67.5 million (1,341 FTE) reduction in TLE was part of the $125.7 million reduction related to Executive Order #12837 (Administrative Cost Reduction).

Question: Last year, during the hearing in response to the question of IRS's priorities, Commissioner Richardson listed TSM as the highest priority. Along with that is the objective of providing more efficient service to taxpayers and building confidence in the ability of the IRS to get the job done. Right now the IRS is in the position of having a credibility gap; do you believe that public confidence should be an equal priority of the IRS?

Answer: Service to the public is the highest priority for every Treasury bureau. One of the best ways to foster public confidence is through effective service delivery. IRS must continue to modernize its tax systems and processes if it is to improve its service. We do not interpret Commissioner Richardson's statements as

placing one priority higher than another. We believe her statements were an explanation of the interdependence of modernization, effective service delivery, and building public confidence.

Question: Why can't IRS correct the problems within its internal management of Tax Systems Modernization (TSM) and get this program on a course which instills confidence both by the Congress and the public?

Answer: On May 6, 1996, the Secretary of the Treasury submitted to Congress "The Progress Report on IRS' Management and Implementation of Tax Systems Modernization" which documented the important changes underway to improve the management of the TSM Program. The IRS recognizes that it is beyond the scope of its current ability to develop and integrate TSM without expanded use of external expertise and changes in its own management approach. The Treasury Department and the IRS are committed to obtaining contract help as soon as possible and effecting the necessary management improvements. With the Department's increased oversight role through the Modernization Management Board and with the performance of systems engineering, design, development and integration work by its contractors, we believe that the course has been set to accelerate progress in modernizing the tax administration system.

Question: Last year the General Accounting Office (GAO) and the National Research Council reports made recommendations by both on how to fix the problems. Why haven't these recommendations been implemented?

Answer: We believe that the changes necessary to correct the TSM Program weaknesses are underway. As the GAO identified in its June 1996 report, there is evidence of appreciable changes over time and acceleration of change in the last six months. For example, we have:

- Clearly articulated our vision for TSM as documented in the report to Congress.
- Put in place a new management team. We have established a single point of accountability and budget control in the Associate Commissioner for Modernization, Judy Van Alfen, and appointed a new Chief Information Officer, Arthur Gross, who had successfully implemented a tax systems modernization program for New York State.
- Established an investment review process in accordance with GAO' Strategic Information Management best practice guidelines, through which all information systems investments are subject to a disciplined review process.
- Rescoped our entire budget request from $6.7 billion in five years to less than $4 billion.

- Leveraged technical and management skills by increasing reliance on the private sector for systems engineering, design, development and integration.

- Significantly increased Department oversight of TSM through a restructured joint Treasury/IRS Modernization Management Board which is chaired by the Deputy Secretary.

- Used expert consultants experienced in large scale government systems management and development initiatives to augment our efforts.

In the report to Congress, we not only specified our intent to make a sharp turn in the way TSM is managed, but we also identified numerous actions underway to effect this redirection. We also made it clear that additional improvements were necessary to fully correct the deficiencies previously identified by GAO and the National Research Council.

Question: The June 1996 GAO report states the "While effective use of additional contractors may in the future strengthen IRS' capability to modernize, it is clear that IRS does not now have the capability to manage all of its current contractors successfully." How do you respond to that charge?

Answer: The IRS recognizes the need to improve its capability to manage contracts. In the past year, the IRS has centralized control over all aspects of its Modernization Program, including Information Systems and contractor resources, reengineering, and research and development. To further improve the management of TSM contracting efforts, IRS is consolidating the management of all TSM resources, including key TSM contractors into one office, the Government Program Management Office (GPMO).

The responsibility for day-to-day technology-related decision-making and direction of TSM efforts will be centralized in the GPMO and will permit a stronger, more technical focus to the management of TSM. The GPMO will have authority over technical, financial, and contract management resources. The primary focus of this office will be to direct and manage all TSM efforts, reflecting IRS' decision to transfer the majority of TSM development, integration, and testing to contractors.

The GPMO will be responsible for the management of all TSM contracts, including the Treasury Information Processing Support Services (TIPSS) procurement. At present, TIPSS contracts are managed by a program office within the IRS' Information Systems organization. The TIPSS Program Office (TPO), in partnership with IRS' procurement office, has established processes, capabilities, and tools necessary to manage the task orders that are issued to the fourteen TIPSS contractors and provides overall contract management.

Consistent with the expanded development role envisioned for TIPSS contractors, the GPMO will develop a TIPSS delivery order methodology for tracing and controlling work which will include cost, schedule, and budget data. The GPMO will develop the statement of work for a prime contractor for TSM and will staff the

source selection teams. The Associate Commissioner for Modernization will direct the TSM program and rely on the Chief Information Officer to manage TSM resources through the GPMO. Day to day leadership of TSM will be provided by the CIO and the GPMO, while the Associate Commissioner will monitor IRS assessments of contractor performance.

Question: The Treasury reports on TSM state that IRS has established priorities and time- tables for project development and the improved capacity to quantify the costs and benefits of TSM in hard dollar terms. Last year you stated that the Modernization Management Partnership was up and running, however, the June GAO report indicates:

- the IRS does not have a comprehensive business strategy for electronic filing,
- the IRS does not have a repeatable process for selecting, controlling and evaluating its technology investments, and
- the basis for making investment decisions is still unclear.

Aren't these the responsibilities of the Modernization Management Partnership?

Answer: This spring, the Department of Treasury significantly increased its oversight of TSM through a restructured joint Treasury/IRS Modernization Management Board (MMB) which is now chaired by the Deputy Secretary. The MMB will serve as the primary review and decision making body for strategic decisions involving the TSM Program. The MMB will provide strategic direction affecting policies for and management of IRS' TSM Program; approve major decisions on and oversee priorities, resource allocations, and implementation schedules through periodic monitoring at strategic decisions points; ensure appropriate IRS follow-up actions on needed corrective actions; and review and approve IRS Modernization performance measures and oversee the realization of management goals. In exercising its responsibilities, the MMB will weigh in on major strategic and investment decisions involving TSM such as electronic filing and the investment review process.

In the Secretary's report to Congress, we indicated that a comprehensive electronic filing strategy has not yet been completed, but that key activities are underway to increase the availability of electronic filing including this year's nationwide expansion of the highly successful TeleFile program. A comprehensive Electronic Filing Strategic Business Plan and Five-Year Plan are currently being developed and are scheduled for completion later this year. In addition, although significant progress has been made in establishing an investment review process within the IRS including the creation of an Investment Review Board, the process is neither finalized nor institutionalized. The IRS is committed to make continued improvements based on the best practices of other organizations. These enhancements include improving collection and access to performance data, and using that data to evaluate ongoing investments.

Question: If Congress were to zero out funding for this program in FY 1997, what would be the impact both in the short-term and the long-term?

Answer: Zeroing out the TSM Program in FY 1997 would have drastic short-term and long-term repercussions. In the short-term, it would inconvenience taxpayers by eliminating funding for electronic filing including the TeleFile program which is used by a growing number of taxpayers each year. It would curtail funding for the expansion of the highly successful electronic funds transfer system which enables the government to manage its receipts with the precision that characterizes the best run private financial businesses. It would also halt the development of initiatives to improve IRS customer service operations including additional automated self-service applications for taxpayers. The result would be the overloading of the traditional toll-free telephone customer assistance services and paper processing systems, delaying refunds for millions of taxpayers. In addition, the IRS would be unable to make critical investments in program management activities and contractor support which are needed to fully remedy the deficiencies raised by GAO and in the technical infrastructure needed to support TSM. The IRS also would be forced to suspend the roll-out of field-tested systems such as the Integrated Collection System which has increased Revenue Officer productivity by over 30 percent. Finally, all work on the development and implementation of new components of TSM, such as the Corporate Accounts Processing System and the Workload Management System which integrates critical TSM initiatives, would be suspended.

In the long-term, zeroing out the TSM Program would seriously jeopardize IRS' ability to meet the demands of tax administration in the future and to achieve its strategic objectives of improving customer service, increasing voluntary compliance and enhancing our overall productivity. The systems that the IRS currently uses to support tax administration are well beyond their useful life and badly in need of replacement. For example, the system for processing deposits and payments is nearly 20 years old and the paper return processing system for data input is over 10 years old. In addition, IRS computer systems are outmoded and front-line compliance and customer service employees lack the information and modern tools they need to do their job in today's electronic environment.

Terminating the TSM Program now would seriously impair IRS' processing, customer service and compliance capacities and adversely affect voluntary compliance. It is essential that the IRS continue its efforts to modernize the tax system to meet the needs of our nation's growing and diverse population, the emergence of a global economy and the sophisticated technology that the public has begun to rely on and expect. The need to modernize the tax system has never been greater and it is important that we capitalize on the progress and the investments that have already been made.

Question: Treasury is still reviewing the priorities for TSM for FY 97. Can you tell us when we can expect to have the results of that review and some idea of what you will need for '97 and how you intend to expend those funds?

Answer: Treasury In May, Treasury sent forward to the Appropriations Committee a set of four reports outlining our management and implementation of Tax Systems Modernization. Part of those reports included a prioritization of each modernized system currently under development or slated for development. Shortly after these reports were released, IRS began to review each project for the strength of its business case and its readiness for development. Part of this review prompted Treasury to reduce its FY 1997 request for TSM from $850 million to $664 million. Priorities will continue to change as IRS determines which projects are ready and which need more time. Treasury is working with IRS to ensure that every project slated for development is ready to go and that all money budgeted for TSM is spent effectively. Treasury has and will continue to keep Congress informed of any changes to the FY 1997 priorities for TSM.

Question: At last year's hearing, I asked about the incentives we could provide the American people to pay their taxes. At that time we discussed whether incentives were on the wrong side. We continue to increase the funding for greater enforcement dollars and the agency continues to have problems with the technology requirements. Should these be telling us something? Is the IRS in the right business when they are trying to do tax modernization?

Answer. The IRS recognizes that it is beyond the scope of its current ability to develop and integrate TSM without the expanded use of external expertise. In the past, the IRS did much of the development and integration work to modernize information systems supporting tax administration using its own staff. Despite some qualified successes, systems development efforts have taken longer than expected, have cost more than originally estimated, and have delivered less functionality than originally envisioned. The IRS agrees it needs to increase its reliance on systems development, systems engineering and integration skills of the private sector to fulfil the goals of modernizing tax administration. The IRS will increase the use of private-sector integration and development expertise by expanding the use of contractors to support the TSM Program. The IRS believes this change in the strategy for using contractors leverages the strengths of both the contractor and in-house contributors to TSM, thereby reducing program risk and increasing the probability of success.

Question: In an effort to combat the negatives surrounding the development of this system are there some positives that can be discussed? Are there any benefits or examples of accomplishments that the IRS has made with moneys appropriated for TSM?

Answer: Although a great deal of work remains to be done, over the past several years real progress has been made in modernizing the tax system. For example, the IRS has changed its practice of focusing on paper filing and payments. As a result, taxpayers have more options for filing and paying their taxes than ever before. This filing season 23 million taxpayers could file their tax returns with a phone call that takes less than ten minutes. Three years ago, TeleFile was a pilot, and last year, when it was only available in 10 states, 680,000 returns were filed by phone. This year, 2.8 million taxpayers took advantage of the TeleFile option. Beginning in Fiscal Year

1994, taxpayers could file from their home computers through a third party transmitter. More than 150,000 taxpayers used this filing method this year, a significant increase from the 1,000 that filed through this service last year. Also this year, taxpayers in 31 states could satisfy both their federal and state tax obligations with a single electronic transmission, an increase from 15 states where joint electronic filing was available in Fiscal Year 1993. This year, over 3.1 million joint Federal/State returns have been filed -- almost double the 1.5 million returns filed last year.

Another example of how the tax system has been modernized is the TaxLink/Electronic Tax Payment System. Historically the process of receiving and posting employer tax deposits, because it was built on the submission and handling of millions of paper Federal Tax Deposits, was very error prone. The system was very expensive for both taxpayers and the government because of the vast amount of "rework" it created. Today, technology is used to accept payments made by electronic funds transfer to satisfy employers' obligations to pay employment and other depositary taxes. This payment method is faster, easier and more accurate for everyone. In Fiscal Year 1995, more than $232 billion was deposited electronically, a major increase over the $6.2 billion deposited in Fiscal Year 1994. As of July 6, 1996, almost 65,000 taxpayers have already deposited $291.6 billion using this system. For those payments that do not come to IRS electronically, other ways are being used to more efficiently process tax payments. By directing many payments to lockboxes, where banks process payments and credit them to the Treasury Department, the deposit process has been accelerated and accuracy has been increased. In Fiscal Year 1995, over $125 billion went through the lockbox payment system, an increase of $18 billion over the prior year.

Technology is also being used to respond to taxpayers' information needs and to answer their questions more quickly and efficiently. The IRS is able to serve more taxpayers by increasing productivity, expanding hours of service and installing call routing equipment that allows better management of its telephone workload. This technology allows IRS, among other things, to route calls to available assistors, who may be in the next country, next state or across the country. Just three years ago, not only was IRS unable to move calls around the country, but its assistors had access only to the taxpayer account information that was stored at the particular service center that serviced their office. Technology has allowed IRS to remove this artificial barrier and to enhance its ability to route calls automatically to personnel who have both the data and expertise needed to handle specific taxpayer questions. Last year, IRS began providing nationwide access to certain taxpayer account information. As a result, issues were resolved with a single call 75 percent of the time.

Technology is also creating new ways for taxpayers to get forms and information while reducing IRS postage and printing costs. Just a few years ago, taxpayers requesting a form or publication had to call IRS, have the material mailed or drop by an IRS office, their local post office or library. Today, taxpayers with access to a computer and modem can get forms and information on 148 topics anytime, anywhere in the world
from FedWorld or the IRS Web Site on the Internet. This year, millions of taxpayers have visited the IRS Internet home page which has been honored by the Internet World Magazine as one of the four top business models. Forms were also available on CD-ROM and, for the first time this year, through an automated "fax on demand" service.

Question: Do you believe obligations for projects being developed and implemented for TSM should be halted until IRS demonstrates that it has this program on the prudent technological and economic course?

Answer: Halting TSM funding would drastically hinder IRS' ability to effectively administer the tax system, now and in the future. The need for modernization has never been greater and it is important that we capitalize on the progress and the investments that have already been made. Taxpayers deserve a better tax system -- a tax system that provides filing options such as TeleFile, access to assistance and information through services such as IRS' Internet home page, and increases IRS productivity through initiatives such as the Integrated Collection System.

We believe that the importance of what we are trying to achieve combined with the corrective actions underway to improve IRS' technical and management capabilities makes it critical that momentum be maintained. The Secretary's report to Congress demonstrated that we have made progress in addressing the concerns that have been raised by GAO. We believe that the steps that we have taken and will continue to take to strengthen modernization management, prioritize our investments, improve our standards and architecture and expand the use of contractors position IRS to move forward prudently with TSM.

Question: How much of the $777 million in unobligated FY 97 balances are for salaries and expenses versus development and equipment costs?

Answer: According to our records, our unobligated balance for the Information Systems appropriation as of April 30, 1996, was $792 million. Of that, $385 million was for salaries and expenses and $407 million was for development and equipment.

Question: If this program (Tax Systems Modernization) were to be temporarily halted, would this impact any existing contracts? If so, would there be any costs from liability?

Answer: There would probably be a significant impact on existing contracts, along with significant liability costs. There are 32 active TSM contracts. On some of these, zero liability could be expected; on others, high liability costs are conceivable. The IRS has obligated over $300 million for these contracts in FY 1996, and over $200 million have been spent so far. If the IRS ceases all activity on these contracts for the rest of the year, it is likely that very little of the obligated but unspent money would be recovered, since costs for contract terminations or stopping work would probably consume the unspent amount. The IRS would make every effort to mitigate liability on a contract-by-contract basis, but heavy costs should be anticipated.

Questions relating to the Bureau of Alcohol, Tobacco, and Firearms

Question: Why do you believe the firearms, explosives and bomb enforcement and compliance activities should stay within ATF and not transferred to another law enforcement agency?

Answer: The reasons why ATF's functions are within the Department of the Treasury are discussed in the attached document "ATF's Functions and Role within the Department of the Treasury". This document was previously submitted to the Committee.

Question: What would be the adverse consequences if this were to occur?

Answer: [Same as answer S 767 above]

Question: Why is there fear of centralizing too much authority and jurisdiction under one large law enforcement agency?

Answer: [Same as answer S 767 above]

Question: Has the Office of Enforcement given any thought to reorganizing or restructuring Treasury's law enforcement bureaus?

Answer: Last year, as part of the Department's Reinvention Government Review, all Treasury law enforcement bureaus were considered for reorganization and restructure. However, no such recommendations were offered. This is due, primarily, to the fact that several enforcement bureaus either had just completed or were in the process of restructuring their organizations (e.g., Customs, IRS/CID, ATF, and FinCEN).

Question: How will the FY 1998 budget be restructured? Will the subcommittee be able to cross walk from the FY 1996 enacted through FY 1998 request?

Answer: The FY 1998 budget structure has yet to be approved by the Department and OMB. However, we anticipate changes to more accurately depict ATF's strategic plan within the budget structure. ATF will work with the committee to help it understand the new budget structure should it be approved.

Question: In light of the extensive church fire burnings, will this supplemental request ensure that the Department of Treasury has given the ATF all of the support it needs to conduct thorough investigations into these fires?

Answer: Based on the level of current operations and resource needs, yes.

Question: According to the supplemental request the Bureau of Alcohol, Tobacco, and Firearms will receive funding to cover the permanent change-of-station cost for 25 agents to affected geographic regions. Will this be sufficient personnel to investigate each and every one of these fires? Why are these permanent changes-of-stations?

Answer: ATF has been responding to all requests for assistance. Through relocating 25 agents ATF will be more responsive to the increased workload. While difficult to predict the exact length of these investigations, based on historical experience, most investigations of this type are longer term in nature and would therefore warrant permanent change of station.

Question: The supplemental will also provide for the purchase of surveillance, lab, and forensic equipment to support arson investigations. Wasn't this equipment previously available to ATF?

Answer: While ATF has received funding in the past for laboratory and investigative equipment, the equipment requested for the supplemental is for the most part portable, to support the current church fire investigations. Many of the crime scenes are in remote locations which necessitates the use of this type of equipment.

Question: Can we assume with this supplemental request the Department of the Treasury given the church fire investigation its top priority?

Answer: The church fire investigation has always been a top priority of the Department of Treasury.

Question: The $7.2 million requested for GREAT grants is level funding -- no new projects can be funded at this level. Evaluations from this program have shown it to be very successful in the GREAT communities from keeping youth from joining gangs. If this is the case, why isn't Treasury proposing increased funding to expand this program?

Answer: The initial evaluation results only recently became available in the spring of 1996 after formulation of the President's FY 1997 budget. The positive program evaluations will be considered in formulating Treasury's FY 1998 budget request.

Question: The DARE (Drug Abuse Resistance Education) program started out much like GREAT, but it established a non-profit Foundation to raise money to support and expand the program. Why isn't Treasury doing more to promote this program, as it did for the GREAT program?

Answer: The GREAT program is a national violence prevention effort among the ATF, FLETC and the Phoenix Police Department. Current law prohibits ATF from soliciting or receiving financial support from private sources. In the FY 1998 budget, the Department may explore the possibility of seeking authority for ATF to receive financial support from private sources for the GREAT program.

Question: Why does ATF need to relocate its National Laboratory facilities? What aspects of this project make this a special purpose construction project?

Answer: ATF's National Laboratory Center is currently operating in a 30-year old building and the lease has expired. The current facility does not meet modern laboratory standards. The building's heating, cooling and ventilation systems need to be replaced. The building also has a recurrent problem with massive termite infestations which completely halts forensic processes. The electrical service and plumbing for the building can no longer support the demands of new technology in laboratory equipment. Additionally, the building does not have adequate facilities for the storage of laboratory chemicals, gases, and explosives and is not in compliance with OSHA and EPA regulations. According to a GSA Building Evaluation Report 89% of the building is in substandard condition. Renovation and lease renewal are not cost effective for the Government.

Severe space shortages along with nearly 90% of the current facility failing EPA and OSHA health and safety standards, require ATF to relocate its current laboratory. The following are examples of these violations:

- There is no safe storage area for the explosive, arson, and pyrotechnic materials. These materials are needed for reference in casework examinations.

- There is no safe storage area for chemicals used routinely in lab analyses. The storage of these chemicals is in fume-hoods that are only marginally functional and bulk chemicals cannot be adequately stored.

- The current facility does not have fire-walls and does not meet current construction standards for a laboratory. A fire anywhere in the building would sweep throughout the entire facility and could not be locally contained.

- Termites infest the ground below the laboratory and periodically swarm into the building and get into lab instruments, halting work for extended periods of time.

- The current exhaust system is inadequate. Particulate lead from weapon test firing poses an occupational health hazard. The firing range is too small for the number of people who use it and the ventilation system does not adequately remove lead-particulate matter generated from the firings. The ballistics tank is located in an area where other examinations are simultaneously performed.

ATF is contemplating entering into a partnership agreement with a university in order to accomplish the following:

a. Opportunities for cooperative research between ATF and a university in areas of common interest.

b. Sharing of sophisticated technical equipment that would be otherwise unavailable to the individual parties.

c. Ready access to technical (chemistry, physics, engineering, computer science) expertise and technical literature maintained by a university.

d. An opportunity to create coop programs. ATF would get high quality, low cost student help and college students get a unique training opportunity while earning college credit.

e. Employee development opportunities. ATF employees would have the opportunity to attend/ or teach at the university.

As part of this new lab, ATF also plans to construct a new fire research facility that will enhance the bureau's ability to integrate arson and arson for profit cases. Research into the fire phenomenon and its effect on fire pattern formation has moved into the forefront of the fire investigation discipline. Fire science and computer technology have raised many questions for fire investigators and is literally changing the way fire scene investigations are conducted. University faculty members and students conducting this research have expressed an interest in partnering with ATF in an effort to develop practical problems that will improve investigations and enhance the engineering discipline of fire reconstruction.

It is also anticipated that the academic environment will enhance our training and education programs that are delivered to other Federal, State and local enforcement agencies.

Question: Will a full and open competition be held for the site selection?

Answer: If land is purchased, ATF anticipates that a full and open competition will be held.

Question: What would the benefits of ATF attempting to negotiate a cost-sharing arrangement with the University?

Answer: Benefits of a cost-sharing/partnership with a university include the following:

a. Opportunities for cooperative research between ATF and a university in areas of common interest.

b. Sharing of sophisticated technical equipment that would be otherwise unavailable to the individual parties.

c. Ready access to technical (chemistry, physics, engineering, computer science) expertise and technical literature maintained by a university.

d. An opportunity to create coop programs. ATF would get high quality, low cost student help and college students get a unique training opportunity while earning college credit.

e. Employee development opportunities. ATF employees would have the opportunity to attend/ or teach at the university.

Question: What is the estimated cost of the site and the design of that facility?

Answer: ATF has estimated that the cost for the site and design of the facility will be approximately $9 million.

Question: How much does ATF believe that will actually be able to obligate for this project in 1997?

Answer: ATF estimates that it can obligate 100% of the funds if appropriated in FY 1997.

Question: What will be the effect if the $62 million is denied in '97 -- will ATF stay at its current location?

Answer: If total funding is not received, it would severely degenerate the Bureau's ability to carry out its mission. Failure to accomplish the relocation will result in severely handicapping services in the beverage alcohol, arson, explosives, firearms and toolmark examination, handwriting and fingerprint analysis section of the National Laboratory Center.

The current lease expires on June 30, 1996. GSA is in the process of negotiating a 3 year extension on the current lease. However, the lessor has advised GSA that they are interested in signing a long term lease with a tenant. The lessor has been advised that the building is no longer capable of meeting the requirements for ATF's laboratories. GSA may be able to get the lessor to agree to a short term extension of the current lease.

Questions relating to the U.S. Customs Service

Question: First, can you tell the Committee specifically, how the U.S. Customs is spending the '96 Hard Line money. Secondly, can you explain how Customs intends to expend the '97 funding requested for this initiative on the southwest border?

Answer: The Salaries and Expenses appropriation of $13.3 million provides resources for the relocation of an additional 72 special agents and intelligence analysts (cumulative total of 162); vehicles and computer support; a fourth and fifth truck x-ray system; special operations funding, the initial installation of license plate readers, integrity awareness training and technical surveillance units, and an interim increase in the tempo of operations all across the border.

The Crime Bill funding provided resources for the following, as originally estimated:

1 Truck X-Ray System (#4 BOTA)	$3,000,000
1 Truck X-Ray System (#5 Pharr)	3,000,000
Intelligence	400,000
Intelligence Port Specific/Data Project	750,000
Relocation of 72 Agents/Analysts	5,085,000
Special Operations	1,500,000
Problem Solving Initiatives	1,000,000
Vehicles	1,243,000
Integrity Awareness Training	100,000
License Plate Readers	2,700,000
Computer Support for SW Border Investigations	912,000
Increased operational tempo for Hard Line II	6,000,000
TOTAL	**$25,690,000**

The President's FY 1997 Budget request for continued support of Operation Hard Line totals $65.0 million and 657 positions. The S&E appropriation of $40.8 million together with the $24.2 million in the Crime Bill request will provide for 657 positions, additional truck x-ray systems, portable TECS terminals, additional seizure vaults, and recurring maintenance costs for equipment. Staffing will cover pre-primary roving, vacant primary booths, secondary inspections, truck primaries and exit gates, cargo docks (to fill bays and search cargo), address overtime, staff new ports, and provide special agents and support personnel. The breakdown follows:

<u>Personnel</u>	
211 Inspectors (Cargo)	
188 Inspectors (Passenger)	
157 Canine Officers	
69 Special Agents	
32 Support Personnel	
Subtotal Personnel (657 Positions)	**$50,505,000**

Equipment	
Additional Truck X-Ray Systems	$12,000,000
Portable TECS Terminals	1,390,000
Hardening of the Vaults	1,105,000
Subtotal Equipment	**$14,495,000**
FY 1997 Appropriation Requested	**$65,000,000**

Of the $24.2 million requested from the Violent Crime Reduction Trust Fund (VCRTF), $10.0 million is integral to funding of the 657 FTE, and will pay for nearly all the one-time basic support costs such as: investigative and protective equipment, weapons, basic training, and information and telecommunications systems necessary for the proper performance of duties.

Question: How much of the '96 funds have been obligated to date?

Answer: As noted previously, $25.690 million was appropriated out of the Violent Crime Reduction Trust Fund in FY 1996. Generally speaking, we expect to have expended most of the FY 1996 funds by the end of the fiscal year. The following obligations have already occurred:

1 Truck X-Ray System (#4 BOTA)	$3,000,000
1 Truck X-Ray System (#5 Pharr)	3,000,000
Intelligence	400,000
Relocation of 72 Agents/Analysts	5,085,000
Special Operations	1,000,000
Vehicles	1,243,000
Integrity Awareness Training	100,000
TOTAL	**$13,828,000**

The following expenditures are occurring on an ongoing basis, and should conclude by the end of FY 1996:

Increased operational tempo for Hard Line II	6,500,000
Problem Solving Initiatives	1,000,000
TOTAL	**$7,500,000**

The $2.7 million for license plate readers has been committed for upcoming obligation.

Question: As a result of the initiative to date, have the number of incidents of port running declined, if so, by how much?

Answer: Yes. Operation Hard Line has made a substantial impact on the occurrence of port running. Comparing 1995 to 1996 to date, Operation Hard Line has produced a 32.8 percent reduction in port-running on the Southwest Border.

Question: Has Customs experienced increased seizures of narcotics, particularly marijuana and cocaine at the Southwest border?

Answer: Drug seizures on the Southwest border during FY 1995, under Operation Hard Line, have increased markedly. The amount of cocaine, heroin, and marijuana seized have increased 19 percent, 108 percent, and 25 percent, respectively compared to FY 1994.

When Operation Hard Line was initiated, Customs anticipated that there would be a diversion of smuggling efforts away from passenger vehicle lanes toward commercial cargo, as well as deeper concealment within the cargo and conveyances. This has proven true. Narcotics seizures in commercial cargo along the Southwest border have continued to increase from FY 1994 to the present. In comparing the first six months of FY 96 to FY 95, cocaine seizures in cargo increased from 26 pounds to 2,096 pounds; marijuana seizures increased from 4,741 pounds to 18,532 pounds.

Question: Has Customs procured additional cargo scanning equipment to search trucks and other containers entering the United States? If so, where has Customs placed the cargo scanners and how many will be purchased in '97 with budgeted funds?

Answer: Our plan for the Southwest Border includes a total of 12 truck X-ray systems for key commercial cargo facilities. The first of these systems is the DoD-funded prototype which is in operation at Otay Mesa, California. We have contracted for 3 more systems with FY 1995 and FY 1996 funds; these will be placed at Calexico, California, and at the Ysleta and Bridge of the Americas facilities at El Paso, Texas. We have funds in the FY 1997 Hard Line Budget for as many as 4 more systems that would be placed at Brownsville, Hidalgo, Nogales and Laredo.

Question: What will be the impact if the '97 request for this technology is not provided to Customs?

Answer: Without the technology requested, Customs inspectors will be forced to return to the slower, labor intensive, and physically invasive methods used in the past to detect the illegal importation of contraband into the U.S. Not only does this place a greater workload on the inspectors, it also may lead to increased infiltration of contraband as smugglers resort to ever more clever ways of concealing contraband that are undetectable without this technology. Manual inspections also increase the time required for inspections thereby slowing the flow of legitimate trade into the U.S. Lastly, invasive manual inspections sometimes involving cutting and drilling into merchandise may expose the government to increased tort claims with a potential for increased costs.

Another ancillary benefit of the technology is that it allows the inspectors to become familiar with the internal construction of various containers each time an x-ray is performed. This "baseline" effect will enable the inspectors to readily detect containers that appear to be of non-standard construction.

Question: How many inspectors and canine enforcement officers does Customs currently have on board?

Answer: We currently have 7,110 inspectors and 458 canine enforcement officers on board. Of the 7,568 total positions, 1,141 are funded through COBRA, 30 through the Small Airports account and 6,397 through direct appropriations and reimbursement.

Question: Where does the Customs Service intend to place the new inspectors?

Answer: In the FY 1997 budget, Customs requested 657 FTE of which 399 are inspectors and 157 are canine enforcement officers. Customs had begun the initial planning for locating the 657 FTE along the Southwest border. In OMB's passback guidance, however, OMB requested that Customs work with INS to allocate positions along the Southwest Border. As a result and in the interests of both agencies, the Deputy Commissioner of Customs recently sent a letter to the Deputy Commissioner of INS requesting a meeting of the two agencies to discuss plans for allocating inspector resources for Fiscal Year 1997. INS will be allocating 400 inspectors to Southern border ports in FY 1997. This meeting is expected to take place sometime in the next few months. The outcome of the meeting will affect the distribution of all of Customs 657 FTE.

As soon as the joint planning is completed, we will provide to you the location of the 657 FTE for the Southwest border.

Questions relating to the United States Secret Service

Question: Has the closure of Pennsylvania Avenue in front of the White House helped reduce the nature of the threat to the President?

Answer: One of the eleven recommendations of the *White House Security Review* was "Rerouting Vehicular Traffic Around the White House Complex and converting Pennsylvania Avenue to a Pedestrian Mall." This recommendation is key to protecting both the President and the White House Complex from explosive devices. Closing Pennsylvania Avenue has allowed the Service to increase its Uniformed Division presence outside the Complex fence, as well as implement other security enhancements and more closely monitor individuals outside the fence, rather than be concerned with vehicular traffic.

Question: What specifically will this additional funding and FTEs be used for in fiscal year 1997 for White House security enhancements?

Answer: The additional FTEs will allow the Service to permanently provide additional Uniformed Division officer posting for an expanded perimeter around the

White House Complex. This additional posting is currently being accomplished partially through the reassignment of officers from the Uniformed Divisions's Foreign Missions Branch, and partially through the use of overtime. The additional FTEs will also allow for necessary officer training time; the hiring of technicians to operate and maintain the security enhancements being installed at the White House Complex; the hiring of clerical support, to free up Uniformed Division officers and technicians currently performing administrative duties; and the hiring of additional special agents to increase the staffing of protective divisions.

The additional funding will allow the Service to continue to implement the recommendations of the *White House Security Review*, including upgrading of the command and control center at the White House, the installation of bollards and guard booths within "President's Park", and the installation of ballistic windows in the White House.

Question: Can Treasury prioritize funding for these activities, and what will be the impact if this funding is not provided?

Answer: Specific prioritization of the recommendations of the *White House Security Review* is difficult. Upgrading the command and control center for the White House is ongoing, and should be completed in FY 1997. The completion of the plan to reroute traffic around the White House, and other recommendations of the *White House Security Review* are dependent upon final approval of the *Comprehensive Design Plan for the White House and President's Park*. The Service is working with the National Park Service and the other entities involved in the process, and will integrate the security recommendations within the final plan. In the meantime interim security measures are in place.

The Service believes that it is crucial to implement the security initiatives for the White House which were recommended by the *White House Security Review*. Due to the regular budget cuts over the past several years, the Service no longer has the flexibility within its budget to immediately accommodate new initiatives. Therefore, if funding is not approved, the implementation of security upgrades will be accomplished more slowly.

Question: How much money has been spent so far from the fiscal year 1996 appropriation for White House Security?

Answer: Although the Service was not appropriated any funding in FY 1996 specifically to implement changes in White House security, there has been some Crime Bill funding identified that can be used for this purpose. To date $6,748,000 has been obligated for White House Security.

Question: How much money does Treasury anticipate spending on the campaign, and how much do you anticipate the surplus to be?

Answer: When formulating the FY 1996 campaign budget, the Service assumed that the campaign would require 934 candidate/nominee protective days. The current estimate is that only 508 protective days will be required. The current estimate is that $27 million will be required, leaving a surplus of $16 million.

Question: There was a surplus from the 1996 presidential campaign which is being used to offset the supplemental request for the Arsons of Southern Churches, is there an anticipated additional surplus? How will Treasury reprogram this money?

Answer: The Service is proposing to reprogram the funding budgeted for, but not required, for the presidential campaign.

The excess funding will be used to pay for the extraordinary level of overtime at the White House (due to the additional posting of officers resulting from the closure of Pennsylvania Avenue); to fund the protective effort surrounding the unplanned and unbudgeted visit of Pope John Paul II to the United States last October; to fund cost overruns for protective activities related to the 50th Anniversary of the United Nations General Assembly; and to fund extraordinary travel and overtime costs, generated by the higher than usual level of travel by the President.

Question: Can Treasury explain to us the reason the State Department denied the requests for certain overseas postings? Can you please tell the Committee what Treasury has done since this report was sent to us to get these critical overseas positions filled?

Answer: Decisions from Chiefs of Mission (COM) were received, and appropriate responses returned to the various embassies. Some embassies have specified fiscal and facility concerns that required agreements; some requested additional justification; and others necessitated an appeal. In each case, the Secret Service response, through Treasury, has satisfied the COM's concerns. In cases where the COM has denied access, the Service has been able to meet with senior representatives of the embassy and discuss in greater detail the need for staffing. Those positions are pending further discussion.

Question: To date, how many of the requested 28 permanent overseas positions are in place?

Answer: Of the 28 positions requested by the Secret Service, 17 have been approved by the respective Chiefs of Mission, through the State Department; and two additional support positions have been allowed, for a total of 19 new Secret Service positions overseas. The two additional positions resulted from the need for Foreign Service National investigators to work with Secret Service agents in Milan and Hong Kong.

Of the 11 requested positions not yet approved, two are awaiting further consideration by the State Department. They are the second agent positions in Bogota

and Hong Kong. Three positions in Moscow, and one in Ottawa, are the subject of discussions that involve the construction of new embassy facilities at both locations. Plans for the new facilities already include floor plans for Secret Service personnel.

The request for three positions in Mexico City has been denied because of space considerations at that location; one additional agent position in Bangkok has been denied due to financial concerns expressed by the Ambassador; and the one additional agent position in Manila has been denied due to the Ambassador's reported opinion that it is not necessary. The Mexico City request was resubmitted to the State Department in June. The Service is awaiting a response.

Question: Can you please update the committee on any progress Treasury is having toward improvement of the technical and financial problems raised in the report on TRIP?

Answer: The interagency conference (Federal Agencies United Against Fraud) held in May 1996 was very successful. As a result of this conference many federal agencies are now beginning efforts in support of TRIP. Currently the Secret Service has coordinated computer matching efforts between the Department of Defense and the Veterans Administration, and the Social Security Administration. As a result of these matches, VA and SSA representatives are now playing an active role within Operation TRIP/Operation Mongoose. The Department of Defense and the Secret Service are currently planning the second phase of Operation TRIP which will include the continental United States. Computer matching will play an important part in the success of this project.

Question: It seems that for TRIP to work effectively, other agencies must cooperate fully with the Secret Service (Social Security Administration, IRS, etc.) Has there been any problem dealing with other agencies when working a TRIP? Is there anything which you can see that Congress can do to help streamline your dealings with other agencies?

Answer: The problems that arise when dealing with other agencies are related to methodology and resources. Many of the agency Inspector General offices are engaged in some form of recipient verification. Problems arise as to how their verifications should be completed and the method utilized. The Secret Service strongly endorses a program that attacks the systemic weaknesses within that agency and endorses 100% verification. The Service also believes that fingerprint identification and the use of a "fingerprint bank" for future verifications are important steps to the overall success of Operation TRIP. Many agencies, such as VA and SSA, are currently conducting limited personal verifications that include a small percentage of their overall recipient population.

An endorsement from Congress would help direct agencies to work together for a common goal.

Question: Has more coordination taken place amongst the Bureaus for TRIP to work; specifically, has Treasury helped the Secret Service by actively supporting this initiative:

Answer: In the past year the coordination among various federal agencies has greatly improved. Computer matching efforts involving DOD, SSA, and the VA, coordinated by the Secret Service, have played a big part in this improved coordination. Continued support will serve to improve overall communications among all parties involved.

Question: Has Treasury looked at other Foreign locations to implement the program?

Answer: This year the Secret Service and the Department of Defense have successfully completed verifications in Guam, Puerto Rico, Spain, Italy, Germany, Korea, Japan and the United Kingdom. Recently the Secret Service and the Social Security Administration conducted a limited verification in Argentina. Planning will continue between the Secret Service and the SSA to continue overseas verification efforts throughout the coming year.

Questions relating to the Bureau of the Public Debt

Question: The FY 1997 funding level reflects savings from efficiencies in the Savings Bond Program. Could you explain these efficiencies and tell us whether we can expect to continue seeing savings in this program?

Answer: The savings are the result of two factors. First, our consolidation to Parkersburg, West Virginia. This effort contributed savings of 35 FTE and $3.206 million in our Savings Securities program. Specifically, they stem from savings in administrative support functions that support this program as well as the Marketable Securities program. Second, savings of 4 FTE and $1.424 million were achieved through the merger of the former U.S. Savings Bonds Division into the Bureau of the Public Debt. Savings result from the elimination of duplicative functions and by performing some tasks in-house rather than through contractual services.

Question: Can the programmatic changes achieved in the savings bond program be applied to other public debt activities?

Answer: We have already achieved savings in the Marketable Securities program as a result of our consolidation. In FY 1997, savings in this program total 112 FTE and $4.736 million. During consolidation Public Debt managers of the Marketable Securities program, were charged with building the organizations needed to serve our marketable securities customers from a from a "clean-sheet" of paper. New flatter and more streamlined organizations were created using only those resources needed to accomplish the mission of each of the operations. This approach was followed by all organizations that consolidated in Parkersburg.

Question: I understand that the consolidation effort of the Bureau of the Public Debt in Parkersburg, West Virginia, is responsible for the savings of about $15 million annually. Would you please provide for the record a detailed and up-to-date account of this project, highlighting the benefits of integrating the communications, administrative support, and automated systems development and support in one location.

Answer: A copy of our final consolidation report dated February 1996 has been provided to the committee. The report details the history of our consolidation from inception to its completion last February.

Government Management & Reform Act (GMRA)

Question: The Federal Government has strengthened its audit responsibilities under the Government Management Reform Act (GMRA). What advantages has Treasury experienced as a result of stricter audit requirements?

Answer: The Treasury Department has experienced major advantages from the audit requirements of the CFO Act, which have been strengthened by GMRA to cover all of the Departments' accounts and activities. Financial statements audits have identified major improvements needed in financial accounting and reporting needed to provide key Treasury components, such as the IRS and Customs, the ability to produce accurate, and timely financial information. Just as importantly, these audits have identified needed improvements in financial management systems and control structures which, when fully implemented, will allow us to effectively manage and operate our businesses, as well as provide reliable annual financial statements.

The financial statements audits have been instrumental in identifying financial management issues and improving the quality of financial reporting and the underlying financial management control structures. Substantial progress has been made in correcting problems identified by these audits; however much remains to be done. As we go forward with our expanded financial reporting responsibilities under GMRA, audits will continue to play a vital role in enabling the Congress and other users to gauge the reliability of our annual financial statements and the condition of our financial management control structures. The basic principle of annual financial accountability, including an independent audit, is as applicable in the federal sector as the private sector.

Question: The Audit Report for 1994 indicated that out of the eleven audits conducted there were seven unqualified opinions. Has the Department experienced any increases in unqualified opinions?

Answer: With the FY 95 financial statements, the Department showed significant improvement in its audit results as compared with the results of the FY 94 financial statements audits. The Bureau of Alcohol, Tobacco and Firearms (ATF) was audited for the first time for FY 95 and received an unqualified opinion on its statement of financial position. The United States Customs Service received disclaimers of opinion on its FY 93 and FY 94 financial statements, but showed

improvement in FY 95 by receiving a qualified opinion on its statement of financial position and a disclaimer of opinion on its statement of operations. Finally, the Treasury Forfeiture Fund, which had received a qualified opinion on its FY 94 financial statements, received an unqualified opinion for FY 95.

In each of these cases, the ability to receive an increased level of audit assurance was the direct result of concerted actions by management of the audited entities to address problems identified in prior year audits or surveys. The Department has made substantial progress and has established a strong foundation toward achieving the goal of an unqualified opinion on the consolidated Departmentwide financial statements required by the Government Management Reform Act.

Questions relating to the Departmental Offices

Cuban Sanctions

Question: Funding ($1m) and FTE (13) are requested to establish a program to enforce sanctions against Cuba, to modify current licensing procedures for travel as well as enforce provisions of the Cuban Assets Control Regulations. According to the budget request the lack of Cuba regulations and standards for individuals traveling for non-humanitarian reasons is leading to a perception that the embargo is unenforceable. How will this funding and FTE increase alleviate that problem?

Answer: The increase in funding and FTE will enable Treasury to properly staff the Office of Foreign Assets Control to establish an effective program to implement the President's announcement of October 1995 to step up enforcement of sanction against Cuba and administer the requirements of the Cuban Assets Control Regulations, the Cuban Democracy Act of 1992, and the Cuban Liberty and Solidarity Act. Our aim is to develop a Cuba program fully staffed to be responsive to licensing, compliance, and enforcement requirements and needs of the public.

The additional resources would enable the Cuba program to provide service for all manner of specific license requests (humanitarian, travel, educational/religious activities, remittance forwarding, telecommunications, etc.) resulting from the Cuba embargo. The Cuba program would provide necessary information to the public on regulatory requirements, ensure full investigation and strict enforcement of embargo violations, monitor travel and remittance service industries for compliance, research and identify front companies and individuals worldwide acting on behalf of Cuba in circumvention of the embargo, ensure compliance of financial institutions, and be responsive to the Cuban American community in South Florida.

International Trade

Question: $5.6 million is being requested for the cooperation of 53 agencies collecting data on international trade. Please explain this project and how it will ultimately provide programmatic efficiencies?

Answer: The International Trade Data System (ITDS) will be an integrated system for collecting, storing, and accessing data on international trade. Currently, over sixty agencies of the federal government collect or use data on international trade. An estimated 90 percent of this information is repetitive, that is, the same information is required to be reported to more than one agency. The ITDS will reduce the reporting burden imposed on the business community and will reduce data collection and processing costs for federal government agencies. In addition, it will ensure greater accessibility and comparability of data on U.S. international trade. An inter-agency team began work on the system in January of 1996, and development is expected to be completed in 1998.

Questions Relating to the Financial Crimes Enforcement Network (FinCEN)

Suspicious Activity Reporting System (SARS)

Question: In April, 1996 the Suspicious Activity Reporting System (SARS) was implemented. This system is to help law enforcement investigate criminal activity by consolidating information and making it available to all interested agencies. How has that system performed?

Answer: During the first three months of the Suspicious Activity Reporting System (SARS), the FinCEN has received in excess of 11,000 reports.

The following charts outline additional aspects of the performance and use of the system:

Breakdown of Violations: April-June, 1996. The table below indicates the reported violation and the approximate percentage of forms which indicated that violation. Please note that more than one violation can be indicated on the SAR form.

	Percentage	Percentage	Percentage
Violation	*April*	*May*	*June*
Bank Secrecy Act/Structuring/Money Laundering	39%	43%	41%
Check fraud	15	15	19
Check Kiting	6	6	5
Defalcation/Embezzlement	3	7	7
False Statement	5	2	3
Credit Card Fraud	1	5	5
Counterfeit Check	4	3	3
Consumer Loan Fraud	3	2	1
Mysterious Disappearance	3	2	2
Misuse of Position or Self-Dealing	3	2	1
Commercial Loan Fraud	3	1	1
Violation indicated as "Other"	9	10	8

The following violations exhibited either a 2% or less occurrence in April, May and June:

Bribery/Gratuity
Counterfeit Credit/Debit Card
Counterfeit Instrument
Debit Card Fraud
Mortgage Loan Fraud
Wire Transfer Fraud

Breakdown of Total Queries by Agency: April- June, 1996. The table below indicates the total number of queries conducted on the Suspicious Activity Reporting System by individual agencies between April and June 1996.

Agency*	Number of Queries	Percent of Total Queries
Internal Revenue Service	2,768	35%
Financial Crimes Enforcement Network	2,045	25
U.S. Attorney's Office	780	10
Federal Reserve Board	724	9
Federal Deposit Insurance Corporation	518	6
Office of Thrift Supervision	473	6
Office of the Comptroller of the Currency	470	6
National Credit Union Association	240	3

*Three agencies (US Customs Service, US Secret Service, and FBI) download the SAR forms into their own databases, and therefore this table does not reflect their queries.

Support to Law Enforcement

Question: Some law enforcement agencies have complained that FinCEN is attempting to function as an operational investigative agency rather than as a law enforcement support agency. What steps are being taken to reach out to the law enforcement community to ensure the agency is providing the support the law enforcement agencies believe they need?

Answer: The concerns surrounding this issue are unfounded. FinCEN is not attempting to function as an operational investigative agency rather than as a law enforcement support agency. To ensure that FinCEN is providing the support the law enforcement agencies believe they need, FinCEN has initiated an outreach program.

In February of this year, FinCEN's Director initiated individual meetings with the heads of Treasury's Law Enforcement Bureaus as a first step in the implementation of a comprehensive outreach program designed to enhance the service FinCEN provides to Treasury law enforcement. FinCEN has subsequently begun implementing a multi-tiered outreach initiative to explain FinCEN's analytical support to law

enforcement field agents. At the same time we have used this opportunity to obtain ideas and feedback on how FinCEN can improve the quality and delivery of its services. This effort includes a telephone survey of FinCEN users; visits to law enforcement field offices around the country; and a training initiative intended to take advantage of SAC meetings and other venues to acquaint agents with FinCEN's services. FinCEN will also participate in new agent training, particularly in conjunction with FLETC-sponsored programs.

In addition, on May 22, the Director followed up on previous discussions with the Treasury Bureau Heads and convened a Bureau liaison meeting at which the IRS, Customs Service, ATF, and the Secret Service were represented. The purpose of this meeting was to establish a policy level liaison group to discuss FinCEN's effectiveness and responsiveness to changing customer needs and to update the group on new services and products. The meeting was very productive, and the group agreed to hold such meetings on a regular basis.

Amongst the various suggestions on ways to enhance FinCEN's services, field agents and bureau liaisons alike have uniformly urged that FinCEN do more to provide information on emerging trends and patterns. FinCEN fully agrees and, in fact, had already begun to address this need by establishing a team of specialists to work with FinCEN analysts in extracting trends and patterns from case profiles and other sources. We will emphasize this process as part of our ongoing support to law enforcement.

Suspicious Activity Reporting System (SARS)

Question: What process is used to get the information from the Suspicious Activity Reporting System (SARS) to the law enforcement agencies which have jurisdiction?

Answer: Law enforcement agencies have access to the Suspicious Activity Reports (SARs) in two ways. First, the Internal Revenue Service and the U.S. Attorneys Offices have direct on-line access to the SARS, and 46 of the 50 states have access to SARS through FinCEN's Gateway Program. Secondly, the Federal Bureau of Investigation (FBI), the U.S. Secret Service (USSS), and the U.S. Customs Service (USCS) all receive a periodic download of the SAR data into their computer systems. The FBI electronically routes and then prints out the SARs which fall within the jurisdiction of a particular FBI field office. The USSS Headquarters reviews all SARs for investigative jurisdiction and then routes those SARs to the appropriate USSS field office. The USCS loads the SAR data into the Treasury Enforcement Communications System (TECS) and electronically notifies each USCS field office of SARs to review.

Asset Forfeiture Funds

Question: In previous years, FinCEN received several hundred thousand dollars in assistance from both the Justice and Treasury Asset Forfeiture Funds for related expenses. In fiscal year 1996, the Executive Office of Asset Forfeiture determined that FinCEN was no longer eligible for this type of assistance. Can you explain what specific statutory authority prevents FinCEN from receiving asset forfeiture funds?

Answer: Prior to FY 1996, FinCEN did receive funding from both the Justice and Treasury Asset Forfeiture Funds. However, the pilot test associated with the Justice Department's specialized use of FinCEN in support of the asset forfeiture program was concluded at the end of FY 1995.

Treasury's Asset Forfeiture Fund has both mandatory and discretionary spending authorities. Mandatory expenses of the Fund primarily focus on all expenses related to the seizure, the storage, maintenance, and disposal of assets, as well as equitable sharing payments to state and local governments. Because of the indirect nature of FinCEN's support to the Asset Forfeiture Fund, the Executive Office of Asset Forfeiture has determined that FinCEN is not eligible for funding from the Fund's mandatory authority. However, FinCEN is eligible to receive funding from Treasury's Asset Forfeiture Funds discretionary accounts, and in July 1996, FinCEN received $2.014 million from the Super Surplus Fund.

Representational Funds

Question: Congress increased the amount of authorization for representational expenses by FinCEN in fiscal year 1996 by $14,000. Can you please identify how these funds have been or will be expended?

Answer: To pay for official, exceptional expenses in support of furthering Treasury and FinCEN's domestic and international missions, FinCEN spent $11,423 in representation funds through the first three quarters of FY 96. The funds supported functions associated with the following events: International Association of Chiefs of Police Conference; FinCEN/Interpol Fifth Working Group on Financial Analysis; Egmont Group (an organization of International Financial Intelligence Units); meetings of the Financial Action Task Force (FATF) in Paris and in Washington; and several lunches and dinners with foreign dignitaries to discuss Treasury's role in creating international counter-money laundering programs around the world. The remaining funds ($2,577) will be spent this fiscal year on similar functions.

SUBCOMMITTEE RECESS

Senator SHELBY. If there is no further business before the subcommittee, the subcommittee stands in recess until next Thursday, June 27, at 10 a.m., when we will hear from the Office of National Drug Control Policy.

Thank you, Mr. Secretary.

Secretary RUBIN. Thank you.

Senator SHELBY. The subcommittee is recessed.

[Whereupon, at 3:54 p.m., Thursday, June 20, the subcommittee was recessed, to reconvene at 10:15 a.m., Thursday, June 27.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1997

THURSDAY, JUNE 27, 1996

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:15 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby and Kerrey.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF NATIONAL DRUG CONTROL POLICY

STATEMENT OF GEN. BARRY R. McCAFFREY, DIRECTOR

OPENING REMARKS

Senator SHELBY. The committee will come to order.

Today, the subcommittee will hear testimony from Gen. Barry McCaffrey, the Director of the Office of National Drug Control Policy.

This is a hearing to review the budget request of ONDCP, but we also want to spend some time discussing the administration's entire effort on the drug front. It is no secret that I have not been exactly happy with the White House support of the antidrug efforts over the past 3 years and I am not by myself, here.

I do not believe that the President and other members of his administration have placed the emphasis that is necessary to get the problem under control. Their rhetoric has been good but, quite frankly, as I told Dr. Brown last year, we need action, not just a lot of talk, not just a big bureaucracy.

General, as I indicated to you when we talked shortly after your assuming your current role, I am willing to support your efforts which is proven with a supplemental appropriation we provided for your office earlier this year. I am hopeful your efforts will be successful, but frankly, based upon the White House's previous commitment, you can understand my skepticism.

The President has requested significant increases for fighting drugs in the fiscal year 1997 budget, almost 10 percent, with a big part of that being in law enforcement. At the chance of not sounding too cynical, I find it truly ironic that an administration which has said too much has been provided for law enforcement in the

past should receive increases of this nature in an election year when those increases have been missing from the President's three previous budgets.

Perhaps I missed something here. Have the bad guys suddenly reappeared during this year? I do not think so. I am not critical of the increases, I am very critical of the politics.

General, I know that it does not fall in your purview, but I want to make one other point. When the President took office, he made headlines by reducing the staffing in the Executive Office of the President by 25 percent. The Office of National Drug Control Policy took the large cuts so that the 25 percent cut could be reached.

Senators DeConcini and Bond, at that time the chairman and ranking member of the subcommittee, were very critical of the President's decision. The President reasoned at that time that the office was bloated and 150 people were too many. Twenty-five, they said, could be more effective. Lo and behold, 3 years later, the plans now are to increase ONDCP to 154 people.

The President got great press for a few days. The drug battle suffered and now the Clinton White House employs approximately the same number of people as did the Bush administration. I am still waiting to hear from the White House as to where the President plans to make reductions to keep that 25-percent reduction.

PREPARED STATEMENT

Senator Kerrey, I understand, will join us later, and he is very interested in this himself. I also have a statement from Senator Campbell which will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BEN NIGHTHORSE CAMPBELL

Mr. Chairman, members of the Subcommittee, I would like to join you in welcoming the testimony of General Barry McCaffrey, Director of the Office of National Drug Control Policy (ONDCP), as he presents the fiscal year 1997 budget request.

ONDCP is responsible for formulating and implementing the National Drug Control Strategy. In particular, two of the five goals in the 1996 Strategy resonate the concerns expressed by members of the Senate and House during this Congress. Goal 1 reads: "Motivate America's youth to reject illegal drugs and substance abuse;" while Goal 4 reads: "Shield America's air, land, and sea frontiers from the drug threat." I, along with my fellow members, look forward to hearing your plans to meet these goals.

The drug problem in this country has aided the recent, rapid formation and spread of gangs. Having originated predominately in large, urban areas, gangs have become sophisticated drug trafficking organizations, branching out into small-town, middle America. They are no longer an isolated phenomenon of the cities; they are now in nearly every state and community. Gangs have infested far too many neighborhoods, far too many families. The Bureau of Alcohol, Tobacco and Firearms (ATF) reports that in my home state of Colorado alone, there was a 258 percent increase between 1985 and 1994 in gang activity associated with drug trafficking.

To help address these problems, the Senate adopted my amendment to the Fiscal Year 1997 Budget Resolution on May 17, which unanimously recognized the alarming rise in drug use and criminal activity among today's youth. The amendment further declared the Senate's commitment to address this problem, evaluate which programs are effective at solving the problem, and focus the appropriate resources on assisting our youth at risk.

This amendment was expanded in the House-Senate conference committee to call for "special efforts to increase successful interdiction of the flow of illegal drugs into the United States and into communities nationwide."

In the effort to assist our youth at risk and curb the deadly gang activity, it is imperative that we involve the community and community-based organizations. ONDCP recently supported the "Prevention Through Service Leadership Summit

Meeting," a major step in the right direction in coordinating national volunteer and fraternal organizations to combat drugs. I am impressed by this effort and am eager to follow its progress in the future.

I have only mentioned a few goals of the National Drug Control Strategy, but I am interested in hearing your plans to meet all of the goals set forth in the Strategy.

Thank you, Mr. Chairman.

INTRODUCTION OF WITNESS

Senator SHELBY. General, the full committee has a markup at 11 o'clock, so time is of the essence. As is the custom, your entire statement will be made a part of the record. You may proceed as you wish.

STATEMENT OF GENERAL MC CAFFREY

General MCCAFFREY. Senator, thanks very much for the opportunity to come over here and lay out our thinking and respond to your own interest and questions. And I must tell you up front that I do appreciate your support and Senator Kerrey's. I understood your skepticism.

I owe you results, not rhetoric, and I intend to come back here next year and try and demonstrate in some concrete ways what we have achieved with the money you have entrusted to our care, and I will assure you I will remain fixed on the functions provided for in the 1988 Federal law, and then I will be bipartisan in my approach to solving this problem.

NATIONAL DRUG CONTROL STRATEGY

If you will allow me, I will give you some general oversight thoughts on the budget and where we are going. We have put in front of the American people the 1996 National Drug Control Strategy. This strategy is not a magic solution. It is not a breakthrough in Western thinking.

It has five goals that suggest that we need a comprehensive approach, that there is no surprise attack to be pulled in a military campaign on drugs. At the same time, many of us believe that this problem, unlike others which are more intractable, lends itself to being subdivided into components and it has to start with a focus on young people.

We have got 1.4 million Americans in Federal, State and local prisons. It is clear we cannot arrest our way out of this problem. At the same time, we support and understand the requirement that drugs are socially wrong, illegal, and the police will uphold the law.

The strategy, it seems to us, requires a 10-year approach, a principled approach, to addressing the five goals that we outline. And next year, I will come in and ask for your support to change the law and to suggest the strategy be rewritten as the environment changes.

The 1997 budget that we have placed in front of you is a 9.3-percent increase over the enacted 1996 dollars. It was, of course, written essentially 18 months ago but I tried to analyze the budget that we put on the table in terms of its ability to contribute to the five goals.

Under those five goals we have outlined 24 objectives that we hope lend themselves to being held accountable, and I have asked a firm to start working with us——

Senator SHELBY. General, how do you measure that accountability? That is important, is it not?

General MCCAFFREY. That is going to be the key, and we are going to try to develop measures of effectiveness in the five goals and the 24 objectives. We may have some false starts, that will give us some way of getting at: What did we do with the money you gave us, and what have we achieved?

I will provide for the record, with your permission, how we think this budget that we place in front of you addresses the five goals. In that budget, a little over 0.9 percent of the total budget goes to operate ONDCP and another $103 million goes to support these HIDTA's, the concept of the high-intensity drug trafficking areas. There are seven of them, as you know, plus three more empowerment HIDTA's.

I have gone to about one-half of them now. I think the concept is attractive. It is very much supported by local law enforcement. There is a lot to be done to ensure that we have a concept that is widely accepted and that is useful to achieve the purpose that Congress announced when they gave us that money.

And then finally, I would suggest we have a lot of work to do on getting a more coherent research and development program going. I am going to have to go out and sort who is doing what in the various fields of drug importation and prevention. There are many of us who feel there are 10 Nobel prizes out there for the research community if they achieve their announced purposes, which is to provide therapeutic agents that will assist us in dealing with the addiction problem.

Senator Kerrey, in particular, I know, is very interested in this area. I have been up to Dr. Don Landry at Columbia University, one of probably a dozen people in the Nation that is capable of doing this kind of work and it is enormously encouraging to see what is going on there in the Johns Hopkins University, the University of Michigan, UCLA, and other places.

In conclusion, if you will allow me to state that basically we think we have got a decent strategy. We have a budget that will tend to support that strategy. It has a modest and I think prudent increase in funds. It has a significant increase of some 25 percent in the Southwest border initiative, and also a second concept of a Puerto Rico-Virgin Islands attempt to stop this backdoor entry of drugs.

Our funds in the source country strategy are modest, barely a little over 1 percent of the total Federal drug expenditures, but we are going to increase or we have proposed to increase that funding by about 25 percent.

We think we have got about 65 tons of cocaine out of the system last year in Latin America and with a sensible use of the money on the interdiction zone in Mexico and also in Peru, in particular, we think we should do even better.

Senator SHELBY. General, 65 tons out about how much?

General MCCAFFREY. Probably 240 tons. It has gone down this year and I think primarily because we are seeing some crop fail-

ures and overfarming. We were saying 840 metric tons was the total production. Now, the linear suggestion is below that this year.

Finally, a comment which, it seems to me, needs to be stated. One of our problems, as we have addressed the drug issue, and Senator Kerrey and I have talked about this earlier, is the whole notion of who is going to make the difference.

Some of us, as we look at it, think that the $15 billion Federal program is helpful, that national leadership is important whether it is me or the other 14 cabinet officers that we now have assembled in the Drug Cabinet Council, but at the end of the day the problem is going to be solved by parents, schoolteachers, coaches, religious leaders, the DARE officers.

This is a problem of communities. There are some 3,500 alliances around this country that formed up in the seventies when America got scared and energized by the incredible rates of drug use in the country. They are still out there. They are now gathering strength again and they are going to go back and get serious about this problem.

So, I see much of what I am supposed to do is get the issue back in front of the American people by taking it to the news media and by taking it to these alliances. We had a tremendous series of meetings here in Washington, where I, for example, asked the civic associations of America to come in and talk to me. The Lions Club International organized it for us and brought in 40-some-odd organizations from Kiwanis to all sorts of local organizations. They are very supportive.

I talked to the American Medical Association, the national convention, the National Association of Mayors, to the National Association of Sheriffs. I believe the American people at the end of the day can do anything.

Senator SHELBY. How do you reach people on a college campus? That is important.

DRUG PREVENTION EFFORTS

General MCCAFFREY. Well, Secretary Donna Shalala, a professional university president and now serving as Secretary of HHS, has some very strong viewpoints on this. I am wearing right now a gold bracelet of the perfect girl, Tish Elizabeth Smith. Her mother gave it to me about 1 week ago in one of the most emotional events I have ever attended and had all of us really in tears.

Tish was a youngster who never smoked, used alcohol or illegal drugs, straight A student, off to university and killed herself brain dead in her first semester smoking crack cocaine and heroin, and finally they pulled the plug on her. Just a great symbolic tragedy of what happens when the university system cannot act in loco parentis in some form or another for these hundreds of thousands of young people we entrust to them and in a very vulnerable period of their life.

We are going to do better and that is not just obviously crack cocaine and heroin, but also alcohol abuse and other gateway behaviors to addictive performance.

Senator, with your permission, I have a 2½-minute video that I have been showing all around the country from Jim Burke's Partnership for a Drug Free America, a remarkable guy. He has gone

to the Creative Industries of America and said, give me help. They did a quarter of a billion dollars last year in this work.

[At this point, a video was shown.]

General McCaffrey [continuing]. These efforts by the Partnership for a Drug Free America are something that formed part of our central approach to the education of the 39 million kids who are 10 years old, and younger. If you can get youngsters from 10 to 20 without smoking cigarettes, abusing alcohol or using illegal drugs, statistically the chances of them having an addictive problem later in life drop close to zero.

They also underscore one of the other difficulties with the problems we face. We are probably dealing with a reasonably small number of Americans that are addicted, 3.6 million. The number is slightly coming down. The numbers are also soft and we owe ourselves better research data on who is addicted and how effective these education, treatment, and prevention programs are.

But our current understanding of the situation is that essentially, we have got drug use in America cut in half in the last 15 years, in raw numbers. Cocaine use is down in terms of numbers of abusers by 75 percent. And yet, counter-intuitively, the tonnage of cocaine used is slightly up. The purity is higher than ever, the cost is as low as it has ever been.

Heroin is reappearing. The worldwide opium has doubled in the last decade. Designer drugs, methamphetamines, rohypnol, ecstacy, et cetera, are now appearing on the scene and we have a generation of youngsters who have doubled their drug use in the last 5 years.

We took our eye off the ball. If we do not respond to this, in my judgment, as a national emergency, it will yield a crop—the numbers are hard to gauge their relevance—almost another million folks addicted in the next 5 years.

And so, that is our purpose, Senator. I have appreciated, both of you, for your leadership and support. I understand your skeptics and I will try to live up to the trust that you express in the 1996 budget.

PREPARED STATEMENT

Senator Shelby. General, we appreciate your appearing before the subcommittee. We have your complete statement, and it will be made part of the record.

[The statement follows:]

Prepared Statement of Barry R. McCaffrey

1. *Introduction*

Good afternoon Mr. Chairman and distinguished members of the Senate Appropriations Subcommittee. It is an honor to be here today to respond to your questions, listen to your views, and lay out for you both what we have been able to accomplish so far and how we intend to move forward.

Let me begin by thanking the members of the Subcommittee and your congressional colleagues for your principled, long-term commitment against illicit drugs and drug abuse. While many challenges remain before us, much has been accomplished through the bipartisan efforts of the Congress and three successive administrations. The national drug strategy has meaning only when it supports the broad-based efforts of citizens and communities throughout the United States.

The primary purpose of this hearing today is to put forward the fiscal year 1997 budget for ONDCP. However, we will also provide a framework that serves as the basis for the proposed ONDCP budget that will be discussed at this hearing.

My purpose today is to:

Provide an overview of the 1996 *National Drug Control Strategy.*

Outline ONDCP's plan of action for the remainder of fiscal year 1996.

Discuss ONDCP budget issues for the remainder of fiscal year 1996.

Discuss the major components of the ONDCP budget for fiscal year 1997.

2. *We must respond to the drug problem in America today.*

Drugs affect the lives of millions of Americans. The social and fiscal costs of drug abuse to our society are unacceptable.

A. *Drug abuse affects all of us:*

1) America has suffered 100,000 drug-related deaths in the 1990's alone—over 20,000 Americans die from illicit drug use each year.

2) Drugs are not a problem just for inner-city residents, or the poor, or members of some minority groups—they affect all Americans from every social, ethnic, racial, and economic background.

3) Drug abuse by our youth is increasing after several years of decline. Past month use of all drugs among youth aged 12 to 17 increased by 50 percent between 1992 and 1994. Marijuana use almost doubled.

4) Only one in four drug users is a hard-core drug abuser. However, this minority consumes the majority of the illegal drugs and commits a disproportionate number of drug-related crimes. About two-thirds of these hard-core users come in contact with the criminal justice system every year. Of more than 20,000 adult, male arrestees tested in 1994 under the Drug Use Forecasting program, 66 percent tested positive for use of at least one drug at the time of arrest. Over one million Americans are arrested on drug-related charges each year.

5) Other drugs such as heroin, methamphetamines (also known as speed, crystal, crank, and ice), rohypnol, LSD, and PCP are emerging as new threats.

B. *Drug abuse also exacts enormous financial costs:*

1) In 1993, Americans spent an estimated $49 billion on illegal drugs ($31 billion on cocaine, $7 billion on heroin, $9 billion on marijuana, and $2 billion on other illegal drugs).

2) The annual social cost of illicit drug use is $67 billion, mostly from the consequences of drug-related crime.

3) Federal, State, and local governments collectively spend about $30 billion each year to reduce illegal drug use and trafficking, and to deal with their respective consequences.

3. *There is cause for guarded optimism.*

The cooperative, bipartisan commitment and efforts of the Congress, three successive administrations, and the American people have moved the U.S. from widespread tolerance of drug abuse to an environment in which the vast majority of Americans strongly disapprove of substance abuse and do not use illegal drugs.

A. While 72 million Americans have experimented with illegal drugs, the overwhelming majority quit of their own accord and oppose illicit drug use.

B. As a result of aggressive prevention efforts, the number of illegal drug users has fallen by half since 1985, from 22.3 million to 12.2 million "past month" users.

C. The number of new cocaine users dropped between 1980 and 1992 from a million-and-a-half in 1980 to about half-a-million. Overall, cocaine use has fallen 30 percent in the last three years alone. Additionally, the number of new heroin users dropped by 25 percent between 1975 and the early 1990's.

D. Homicides have decreased by 5 percent. Those judged to be drug-related are down approximately 25 percent.

E. Drug use in America's workplaces is down. Three of four companies with more than 250 employees have formal anti-drug programs and policies in place.

F. Internationally, we moved to create increasingly effective alliances, partnerships, and cooperative agreements.

1) Our interdiction efforts in South America have disrupted the trafficking patterns of cocaine traffickers in Peru, causing them to change flight routes and modes of transportation. A third of the cocaine produced in the region is intercepted before it hits our streets and those of other countries.

2) Six of seven ringleaders of the Cali Cartel were arrested in 1995, and one recently was killed by the Colombian police while resisting arrest. Key Asian countries have begun to arrest kingpins involved in heroin trafficking and to ex-

tradite them to the United States. Such efforts are being intensified to hamper evolution of "next generation" traffickers.

3) We have developed new mechanisms for improved counterdrug cooperation with the Government of Mexico.

4) The President has signed an Executive Order transferring the responsibility of chairing the International Working Group (IWG) on drugs from the Department of State to ONDCP—increasing our ability to work the interagency process.

4. *The 1996 National Drug Control Strategy.*

ONDCP was not able to submit a National Drug Control Strategy to the Congress by the February 1, 1996 statutory deadline. This delay provided the requisite time to develop a new, emerging strategy at the end of April—to which ONDCP could be held fully accountable. We owe Congress and the American people a full explanation of the costs and pay-offs of all components of our national drug strategy.

A. *What the National Drug Control Strategy does:*

1) Provides a concept to organize the collective American counterdrug effort. Educate and mobilize leaders, teachers, law enforcement officials, parents, family, and friends to achieve a common purpose. Our goal is to reduce illegal drug use and its consequences in America.

2) Provides general guidance and direction to the efforts of the more than 50 Federal agencies involved in the struggle against illegal drugs and substance abuse.

3) Provides a common framework to: State and local government agencies; to educators and health care professionals; to law enforcement officials and community groups; and to religious organizations, mass media and American business to build a unified American counterdrug effort.

4) Provides for a long-term (10-year), comprehensive, coordinated systems-based approach. There are no simple solutions to reduce drug use or the damage it causes.

B. *Strategy Goals:*

Goal 1: Motivate America's youth to reject illegal drugs and substance abuse.

Goal 2: Increase the safety of America's citizens by substantially reducing drug-related crime and violence.

Goal 3: Reduce health, welfare, and crime costs resulting from illegal drug use.

Goal 4: Shield America's air, land, and sea frontiers from the drug threat.

Goal 5: Break foreign and domestic drug sources of supply.

5. *The Way Ahead—The ONDCP plan of action for the remainder of fiscal year 1996.*

Four major themes will guide ONDCP's priorities and actions during the remaining five months in this fiscal year.

1) *Reach out to educate America's youth.* ONDCP will work with advertising agencies, the news media, and the entertainment industry to craft a credible anti-drug message to American youth.

2) *Continue to organize our nation's leading drug treatment and law enforcement experts at national, state, and local levels.*

3) *Protect our borders:*

a. *The Southwest:* Discussions with U.S. Attorney Alan Bersin during the first weeks in office, followed by a trip to the border area in May, have resulted in an ONDCP initiative to convene a Southwest Border Summit in El Paso July 9–10. Our intent is to learn firsthand about the challenges faced by those officials and agents who guard our 2,000-mile frontier with Mexico.

b. *The Southeast:* Recently visited Miami to help organize support for this major High Intensity Drug Trafficking Area (HIDTA). Our goal is to pursue a more effective and coherent strategy that addresses challenges that arise from Puerto Rico and the Caribbean. Expect that this will be a key part of the upcoming HIDTA Conference in July.

4) *Continue momentum of our international initiatives:*

a. ONDCP co-chaired the Law Enforcement and Narcotics Issues Working Group of the U.S.-Mexico Binational Committee Meeting with Attorney General Janet Reno in Mexico City in May. The U.S.-Mexico High Level Contact Group established to guide promulgate and implement bilateral drug control policy will meet again this summer.

b. ONDCP will devote attention to the critical challenge posed by Burma (the major source of heroin in the United States), Colombia, and the Andean Ridge nations (major sources of cocaine). We will meet with foreign am-

bassadors representing these countries in concert with the U.S. State Department to share insights as to how we may be able to enhance movement toward more effective regional counterdrug cooperation. ONDCP is also working closely with the State Department to coordinate trips to Burma, Panama, and Colombia.

6. *Fiscal Year 1996 Budget*

A. *$3.4 million fiscal year 1996 ONDCP budget supplemental:* We appreciate Senate support of the fiscal year 1996 ONDCP supplemental appropriations. This has allowed us to move forward quickly to rebuild the organization as indicated in the materials submitted to the Subcommittee on May 24 pursuant to the Conference Report accompanying Public Law 104–134. The addition of 80 new employees will result in:

1) An organization that is adequately resourced in staff to provide effective leadership oversight for: 50 Federal departments and agencies; 54 State and territorial governments; approximately 3,200 county governments; nearly 13,000 city governments; and hundreds of public interest groups, research facilities, educational institutions, professional associations, and the private sector.

2) A staff able to analyze all available data to better shape increasingly effective strategies.

3) A staff of 154 bright women and men who can work closely and cooperatively with other Federal agencies and State and local officials to exercise more effective coordination and oversight over the national counterdrug effort. We cannot afford to be surprised again by emerging drug threats such as methamphetamines.

4) An analytical staff to closely review counterdrug budgets, monitor national counterdrug strategy implementation, and conduct rigorous program evaluations. We will devise more robust measures of effectiveness and a zero-based budgeting capability to ensure prudent expenditure of resources.

B. *$250 million—Fiscal Year 1996 ONDCP Counterdrug Initiative:*

1) On April 12 the President submitted a supplemental appropriations request reflecting ONDCP's recommendations for reallocation of $250 million from the Defense Department fiscal year 1996 budget—the product of enormous interagency cooperation and coordination. The conferees expressed their intent to fund these additional requirements in the fiscal year 1997 appropriations process in the Conference Report accompanying Public Law 104–134.

2) ONDCP recommended only those programs that could best respond to emerging drug challenges facing our nation and which were also capable of achieving high payoff, near-term results.

3) The proposal supports the priority initiatives of the national counterdrug strategy. Additionally, it enhances Federal agency capabilities and effectiveness by supporting essential tools, innovative technologies, and programs.

7. *A brief review of the ONDCP mission.*

The Anti-Drug Abuse Act of 1988 (Public Law 100–690), as amended, assigns the Office of National Drug Control Policy a diverse list of missions.

1) Formulate the nation's drug control policy.
2) Exercise oversight over the U.S. government-wide program.
3) Develop and implement the National Drug Control Strategy.
4) Develop and execute the National Drug Control Budget.
5) Represent the Administration's drug policies and budget before Congress.
6) Conduct research in supply and demand reduction technologies.
7) Administer the High Intensity Drug Trafficking Area (HIDTA) Program.
8) Supporting tasks for these missions include:

a. Reevaluate strategic goals and objectives to ensure program accountability.

b. Reevaluate rehabilitation and treatment effectiveness.

c. Assess changes in domestic drug use, drug availability, drug use consequences, drug treatment capacity, and drug information retrieval systems.

8. *The Proposed fiscal year 1997 National Drug Control Budget.*

A. *The President's request—$15.1 billion.* This represents an increase of $1.3 billion over the estimated fiscal year 1996 enacted level of $13.8 billion (9.3 percent). The budget is divided among demand reduction, domestic law enforcement, international, and interdiction efforts. This budget request will:

1) Enhance drug prevention and treatment programs.
2) Support implementation of the international drug control strategy.
3) Emphasize efforts to stop the flow of drugs at our borders.

4) Strengthen local law enforcement initiatives.

5) Provide more resources to communities to combat the drug challenges that they face every day.

B. *The ONDCP Budget—$137.838 million*

1) Policy Research—$1 million

a. ONDCP will direct its policy research budget to study emerging drug supply and demand trends, assess program effectiveness, and improve the sources of data and information about drugs. Specific projects include:

Pulse Check—A report on current drug use and emerging trends based on qualitative information from law enforcement, ethnographers, and epidemiologists working in the drug field. Also includes information from providers of drug treatment services nationwide.

Retail Value of Drugs Sold in the United States—An annual project to determine how much Americans spend on illegal drugs. Also provides estimates for the size of the hardcore user population.

Community Policing—An investigative project that examines specific police initiatives that have proven successful in reducing crime, violence, and drug abuse.

2) High Intensity Drug Trafficking Area (HIDTA) Program—$103 million

a. Funded at the same level as fiscal year 1996.

b. Partnership between Federal, State, and local law enforcement agencies. For example, the Miami HIDTA task force is comprised of 281 members that represent 29 agencies. They have seized over $300 million and more than 60 tons of cocaine since its formation in 1991.

c. Empowers national and local law enforcement officials to take a regional approach to dismantling the most serious drug trafficking organizations.

d. Targets seven of the 10 largest drug trafficking areas in the United States:

Houston, Los Angeles, Miami, and New York HIDTA's focus on dismantling significant drug trafficking and money laundering organizations and prosecuting those involved.

Puerto Rico/U.S. Virgin Islands and the Southwest Border HIDTA's focus on interdiction systems, operations, intelligence, investigations, and prosecutions.

Washington, D.C/Baltimore HIDTA addresses drug distribution networks, and targets funds for treatment of chronic, hardcore drug users in the criminal justice system and prevention services.

e. Includes three Empowerment HIDTA's located in Chicago, Philadelphia-Camden, and Atlanta. These limited-resource joint ventures are aimed at reducing drug trafficking in designated Empowerment Zones.

3) Counterdrug Technology and Assessment Center (CTAC)—$17 million

a. ONDCP's central counterdrug enforcement research and development organization. This organization coordinates the research and development activities of all Federal agencies with counterdrug responsibilities. The national counterdrug program currently includes more than 270 research and development (R&D) projects.

b. CTAC's Chief Scientist reports directly to the Director, ONDCP. He chairs the Science and Technology Committee that coordinates R&D efforts among 21 Federal agencies.

c. CTAC's new priorities:

To support ongoing programs that strengthen substance abuse medical research.

To develop technologies for non-intrusive searches of containers or other cargo reaching U.S. shores.

d. Reassessment and review: The ONDCP Chief Scientist will undertake a complete review of the programs currently supported by CTAC. We must ensure that CTAC's work is producing value added impact on the national counterdrug effort. These projects must also be consistent with ONDCP priorities. Additionally, CTAC's work must be evaluated to avoid duplication or redundancies with projects done elsewhere in the Federal government.

4) Salaries and operational expenses—$16.838 million. Our proposal includes:

a. Compensation and benefits for 124 civilian staff (4 Senate confirmed appointees, 120 regular staff). The salaries for 30 military detailees are not included. There will be a total of 154 individuals on the ONDCP staff.

b. Employee management and oversight travel to monitor a $30 billion effort at Federal, State, and local levels.

c. Office space rental and expansion, furniture, computers, communications equipment and general office expenses to accommodate a responsive ONDCP staff capable of fulfilling Congressionally mandated responsibilities.

9. *Conclusion:*

All of us in ONDCP take very seriously the enormous responsibility placed on us by Federal law.

We must demonstrate to the American people that we can successfully address the drug challenge. Trust in our public institutions, secure neighborhoods, safe schools, healthy work environments, and the future of our young people are at stake. There is every reason to believe that the American people with our enormous spiritual and moral strength, our respect for law, and our compassion for our children can control the menace of drug abuse and the criminality it engenders.

On May 15, the President signed an Executive Order establishing the President's Council on Counternarcotics, resulting in the first-ever Cabinet Meeting during May which was devoted entirely to drugs. There is every reason to believe that this will, effectively help raise the profile of drug abuse in America.

The President's instructions to me were to help create a cooperative, bipartisan partnership with Congress and the Federal, State, and local governments to achieve our purpose. Your support, oversight, wisdom, and friendship will be enormously welcome as those of us privileged to work in ONDCP face up to this task.

INCREASING DRUG USE

Senator SHELBY. General, I do not believe either one of us or any one on the committee are skeptical of you. You have had a history of results and we wish you well. We are skeptical of the program because of the history of the program.

General, I am disturbed by a statistic you cite in your opening statement. You note on page 2, paragraph 3 of your written testimony, "Drug abuse by our youth is increasing after several years of decline. Past month use of all drugs among youth aged 12 to 17 increased by 50 percent between 1992 and 1994. Marijuana use almost doubled."

A 50-percent increase over 3 years after several years of decline, and then marijuana use almost doubled. That is significant in itself, is it not?

General MCCAFFREY. Yes, sir.

Senator SHELBY. I mean a 10-percent increase is significant when you are talking about drug abuse, especially for the vulnerable 12- to 17-year-olds. To what do you attribute such a large increase in drug abuse among this age group?

General MCCAFFREY. I am not sure we have a definitive conclusion but one of the interesting problems is denial, and denial is not only individual drug use but it is family denial, work, community denial.

I went to a major newspaper editorial board. I am going to go to every editorial board of every key newspaper in the country. I made the assertion that youth are increasingly involved in drug abuse and was in a fight for 30 minutes with a group of people who denied that that was the case, including a father who said he had three high school kids and that there were no drugs in his high school.

And so, I think that may be part of the explanation.

Senator SHELBY. What is causing the denial when the reality is there.

General MCCAFFREY. Many people would like to believe that the drug abuse in America is a problem of someone else, that it is Afri-

can-Americans, Hispanics, poor people, at some other part of the country. "It is not my family, my community." And when you look at the numbers, we know that more than 70 percent of the people abusing drugs are employed.

The overwhelming number are white. You find counterintuitive statistics such as black teenagers using cocaine, cigarettes, lower than white teenagers. And so what we are trying to, I think, have people face up to is that this problem involves all of us and it is a very difficult thing.

We look at the statistics on parents who think their children's school is involved in drugs is one-third of the number of children who think their school is involved in drugs. So, I think we have got a stiff challenge to get to a generation of parents. At least one-third of the adult Americans in the United States are using illegal drugs, more than one-half of certain age groups.

So, I think that is the other problem we are facing. We have got a generation of parents at least 80 percent of whom are advising their children to not use drugs but they are wondering if they are being hypocritical because they drove drunk in 1973 or they smoked dope at Berkeley in 1969. And they are trying to sort out in their own mind, "What do I tell my own 16-year-old daughter."

We are also not getting enough attention in the press about this issue. We thought we had solved drug abuse in America in the eighties. We took our eye off the ball and we did not talk to this generation.

And then finally, I think the other problem is parents do not understand that drug use has changed, that the marijuana that the kids are encountering today is three to five times the THC content, that it is laced with PCP, and it is occurring earlier and earlier.

A 12-year-old smoking marijuana, the stats seem to indicate there is a statistical correlation that he is 79 times more likely to have an addictive problem later on in life. If that was a 22-year-old senior at college, perhaps you would not see those kinds of correlations, but this vulnerable adolescent age is increasingly seeing drug abuse among kids down in the sixth grade, and that is another factor which I do not think we saw 15 years ago.

We are just going to have to go back and put this center stage and let the American people be aware of it and then empower parents to make a difference.

Senator SHELBY. It is much deeper than people want to admit.

General MCCAFFREY. I think so. There is a wonderful guy, Bill Oliver, who is the executive secretary of PRIDE—some of these organizations I had never heard of until in the about last 4 months, I guess, because my children are in their late twenties—and went and talked to their national convention, 8,000 kids involved.

And essentially, it says, "Let us go tell parents to get involved with their own kids." Bill Oliver makes the case that in this country, which works from the bottom up, not the top down, that if you look at who is not using drugs, which is 82 percent of the American kids are not using illegal drugs, and say, "How come you are not using drugs?" The answer by 2 to 1 comes back, "Because my parents strongly told me not to."

And then you say go control the population and ask the parents, "Did you ever use drugs?" Well, as much as one-half of them did.

Eighty percent of them still now are against drug use but over 90 percent are telling their children not to use drugs.

And so we have got a generational thing. We are going to have to face up to it and I think we can do it.

COUNTERNARCOTICS BUDGET

Senator SHELBY. General, demand reduction programs are the second largest component in the drug control budget. These programs make up approximately one-third of the budget. Past ONDCP reports have indicated that no matter how much is spent on demand reduction, that overall usage never declines. In fact, it increases in many areas.

That indicates to me that some of these programs are not working. However, when one looks at the budget, it appears that demand reduction programs continue to receive funding and in some cases increased funding whether they work or not.

General, you have not been on the job long enough to measure this, but certainly long enough to develop some thoughts about the effectiveness of these programs. Would you care to elaborate on this demand reduction program?

General MCCAFFREY. Senator, one thing I am sure of is that we owe you a more sophisticated response on how we spend the money.

Senator SHELBY. Absolutely.

General MCCAFFREY. Right now, by law, I have to tell you in supply and demand the percentage breakout and so it comes out two-thirds supply and one-third demand. But the supply function includes law enforcement and prisons. And so if you break it out with that subdivision, you find that 55 percent of the money you gave us last year went to prisons and law enforcement, well over one-half.

It is almost as if that is not a discretionary funding without a whole series of other policy changes. We want law officers to uphold the law and so we have got 100,000 people in the Federal prisons. Two-thirds of them are there for drug-related offenses.

We cannot arrest our way out of the problem, but if we are going to have the laws, we have got to enforce them and so, in fact, if you look at how we spent the money last year, about 19 percent of it was on treatment. Tiny percentages were on foreign interdiction operations.

Now, some of these programs do not work. We have got Joe Califano at Columbia University going to do a 3-year study with several thousand clients of a couple hundred different treatment programs. We are going to try to end up with scientific data, subject to peer group review, that suggest what works and what does not.

We are going to do the same thing—UCLA is looking at drug education and prevention.

Some of it does not work and I owe you a more rigorous explanation of that than you have gotten in the past. Having said that, sir, let me also suggest something that I am starting to believe. I have been in programs like the Striver House, and I have asked people to identify for me programs that they believe work and I am

going to go look at them. I will listen to their arguments and encourage them to get more rational data to support their position.

But I have been to a place like the Striver House, which has no Federal money, it is in Harlem, there is no scholarly advice. It was ministers and local activists who got together and took people off the streets who were addicted to cocaine and heroin primarily.

They stand around and hold hands and chant slogans which are up on the wall, purity, respect for your body, cooperation. They give them hot meals. They get them work. They tie them into the social welfare services. And it is my impression that if you stay in that program with people that care about you, at the end of a year or so, there is a 75-percent chance you are no longer addicted to crack.

Now, you have got to have a follow-on care program. You cannot just get thrown back out in the street. I think that is part of the problem of the visibility of the drug problem. If you have got a healthcare program and a family that loves you and a job, you are better able to endure drug addiction than if you do not.

PERFORMANCE MEASURES

Senator SHELBY. General, are you going to evaluate what you get back with us in detail on what programs you believe will work with modification or will never work, and share that with us?

General MCCAFFREY. We have a fellow, Dr. Allen Lechner, over in NIDA, who I think is a real bright, astute public servant, and our goal by the end of the century is to replace ideology with science. We have got to end up knowing enough to say something coherent to you in these hearings.

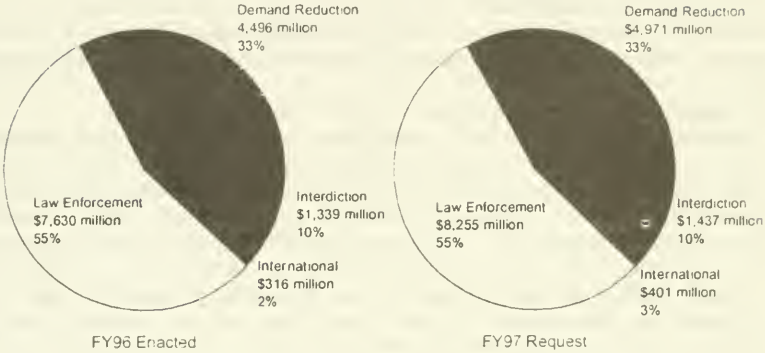
Senator SHELBY. General, I am going to ask you one more question on this round and then yield to Senator Kerrey.

The President is requesting approximately $15.1 billion for anti-drug efforts in fiscal year 1997. This is an increase of 9.3 percent. Could you break out the funding, how this funding will be used for domestic law enforcement, demand reduction, international programs, and interdiction. I know Senator Kerrey in the past has been very interested in interdiction.

General MCCAFFREY. We sliced this several useful ways. With your permission, I would like to submit for the record some pie charts where I have tried to get a static analysis of what is there and also a little sense of where it has been over the last 5 years.

[The information follows:]

Office of National Drug Control Policy
FY 1997 National Drug Budget



Total Budget 9.3% Increase (largest in history)

Prevention / Education increases 11.3%
(40 million school children / 97% school districts)

Treatment increases 8.6%
- Treats 1.1 million / 3.6 million need
  $100 million proposed for Drug Courts
- Treatment for State / Federal prisoners

Interdiction / SW Border increases 7.3%
- More than 1,500 staff for SWB
  - 25% increase Border Patrol

Law Enforcement increases 9.3%
- Expanded DEA / FBI targeting organizations
- 2,000 more police under COPS
- 2,420 more prison beds

ONDCP 11/27/96

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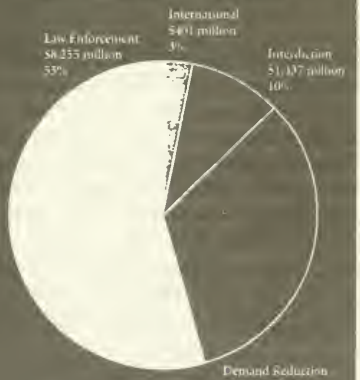
$15.1 Billion President's Request



ONDCP
September 1996

General McCaffrey. I went and tried to break it down.

Senator KERREY. General, I actually did one that I was going to offer. This is one that I have done. You tell me if that is right or not.

General MCCAFFREY. I believe it is, yes. Yours may be a little better organized than the one I use because I have mine in too many subcategories of law enforcement and you have amalgamated it.

Senator SHELBY. But that is about the gist of it?

General MCCAFFREY. I think it is, yes, and criminal justice system at 55 percent, I mean, one-half of it is off the top and I would view that as a dependent variable and not as a discretionary policy choice unless we changed other things like the U.S. Sentencing Commission findings, all of which ought to be subject to review in this coming year. I think that is an accurate one.

Now I tried to also break it out in terms of how did this budget support the five goals I have suggested in the strategy and what is the increase or decrease over last year's budget in terms of those goals. So, prevention and education, we have plussed it up 11 percent; investigations, the law enforcement function, about 11 percent; treatment, about 8½ percent; interdiction, a little over 7 percent; and international programs, 25 percent.

That one is a little deceptive because it was a tiny number to start with but we have had President Fujimori in to talk to him and we are working with the Mexicans. We think there are some major payoffs in the source country's strategy with a modest increase in investment, helicopters in Mexico, some support for the police OPTEMPO operations in aviation in Peru, and that kind of thing.

So, the bottom line is one-half the budget is prisons and law enforcement and the most important piece of it, things like the $540 million of safe and drug-free schools, the $1.3 billion for treatment and education in HHS accounts, and a little more than $1 billion in the Veterans Administration is perhaps the most useful money to us over time in terms of payoff.

Senator SHELBY. Senator Kerrey.

Senator KERREY. Thank you very much, Mr. Chairman.

General McCaffrey, I appreciate very much your focus and your insistence that we develop a long-term strategy as well as goals and benchmarks and measurements using good science as opposed to guesswork and holding ourselves accountable.

It is unquestionably very difficult to do in a legislative arena. I mean, we budget from year to year. We get driven by small problems that sometimes look larger than they actually are. There is no question that that is a difficult thing. And we get also driven sometimes by things that all of a sudden occur that we did not realize were happening. For example, the methamphetamine problem was not even there 5 years ago; I mean 4 years ago, in Nebraska, there were almost no arrests at all. Now, they have well over 100 arrests. We have got problems, not in the inner city, we have got problems out in rural Nebraska.

We have got a drug that is more dangerous. We have got a drug that is hard to prosecute. We have a drug that is difficult for parents to detect. I mean, there are all kinds of things here, but the problem literally was not there 5 years ago.

And today, the chart is like this. I mean, the chart is driving upward to the right, though I do not think this committee should earmark the HIDTA areas. I am sympathetic with the designation because one of them was Midwest, and I do believe the Midwest, given the change that has occurred, that it is crying out. If you look at the data, particularly for an 11-State region, if you look at the data, I just think that it cries out for that kind of a designation.

Further, I must say that I did not see in your testimony the statement that you made to me earlier, which I think is quite good, and that is that what you are trying to do is lead the country to solve this problem. I mean, I say it again for emphasis, lead the country to solve the problem themselves, and I do think that is a terrific statement of mission and one that I do not doubt that you are capable of carrying out, of executing.

It is essentially one that we are going to have to solve, me as a parent, me as a citizen, me as a business person, me wherever I am in the country and whatever political party I am, I mean these things really do not matter. I suspect they do not check party registration at PRIDE. It is just a commitment to sustain the effort over a long enough period of time that we begin to see real change, particularly in youth consumption, but in that regard, let me just get to a short-term situation.

Any time you have a relatively small organization, and one of the problems that you face is that taking that pie chart and using it in a different kind of chart, this is spending by all agencies and you can see Justice spends $7 billion; Health and Human Services, they spend $2 billion; Treasury spends $1 billion; Veterans Affairs spends $1 billion; Defense spends $800 million; Education spends $658 million; Judiciary, $577 million; Transportation, $400 million, which is an interesting one; HUD actually spends $290 million; Social Security spends $202 million; State Department spends $194 million; and there you are down at the end of the food chain at $137 million; Labor spends $70 million; Interior spends $35 million; and Agriculture spends $29 million.

So, you have got this in a relatively small organization, and you pass out a lot of grants. I do not know what that total amount is but you actually award grants. One of the things that leads to, though, is somebody like myself that is trying to figure out how to lead to a solution of the methamphetamine problem in Nebraska.

I sit and look at this and I say, Well, gee, if I took that $137 million I could hire 1,000 FBI, DEA, and INS agents and maybe Nebraska would get 30 of them. If I fight for my fair share and I get 30 agents, if I get 30 new agents, FBI, DEA, INS agents in Nebraska we could lick that problem. No question in my mind, that chart will start going down to the right. I mean, that is the way I view it.

I understand that it does not meet the test of being a long-term strategy. It does not meet the test of some of the other things that you have laid out there. It is a simplification because you do not have a $1 million labor cost here. You have got, as I said, you have got grants that are going out and a relatively small agency will produce relatively higher labor costs anyway on a unit basis.

But how do you help me figure that out? Are you going to be doing that kind of recommendation? Are you going to be coming in

and saying, Senator, one of the things I think needs to happen is to take some of those resources that we have got in Justice or that we have got in HHS or that we have got in Agriculture or we have got in some other area, we got a short-term methamphetamine problem that could be nipped in the bud and we want to put a very unwelcome sign out, making sure that law enforcement people and people that are prosecuting and have the resources and have the capacity, and whatever underlying laws need to be changed to support them get accomplished as well.

I mean, presuming we are not going to take your $137 million and convert it into 1,000 agents, are you going to be making recommendations that respond as you would if you were in charge of the 24th Mech. You will have a short-term situation and you will say, I am going to take 1,000 people from over here and I am going to put them over here because I have got a problem. Will you be making that kind of a recommendation to the Congress or to the President?

General McCaffrey. Well assuredly, right now, we have got three budget analysts in ONDCP, a $15 million program. That is a very interesting breakout. I will borrow that also. In fact, I may borrow some of your staff while I am at it because that is another very effective way to look at where this money is going.

Senator Shelby. Well, it lays it out, does it not?

General McCaffrey. Nicely, and one of the things you have to do is get inside there and find out how much of that is really drug-related money and how much is imputed drug-related money. And then, second, to what extent does it actually grapple with the problem? And then finally, are there duplicative results in here? Do we have two agencies doing the same function?

Senator Kerrey. I am just saying my guess is the chairman would as well. If you came to this Congress and you said, Look, I need your help. Or go to the President as well, and say, Mr. President, we have a situation here where I have got 1,000 people working in HHS or 1,000 people working some place else, and I have got to get agents out there in the field. I have got a serious law enforcement problem that I think we can lick. I have got a community, whether it is in Missouri—for gosh sakes, they shut down 137-some laboratories.

They did not have any laboratories 4 or 5 years ago for methamphetamines. We only have 12 chemists working out of Chicago to serve the whole area and you need that chemist in order to bring the case to the court.

I mean, I am taking the methamphetamine issue because it is a big one in Nebraska right now.

General McCaffrey. It is a good example, though. What happened to us with crack cocaine 10 years ago where we did not see it coming and we did not get organized and it rolled into American cities.

USE OF RESOURCES

Senator Kerrey. But will you be coming in and saying, Look, I have got 1,000 troops over here that are doing something that all of a sudden is not as important. I have got something more important over here. I need to move 1,000 people from here over to here

in order to be able to lick this problem. Do you feel like you have got that kind of authority?

Senator SHELBY. Why could you not, and it might take legislation, it might take an Executive order, why could you not as the drug czar be able to coordinate this, the whole program, if it makes sense to move troops around as Senator Kerrey suggested?

General MCCAFFREY. I think that is exactly what you asked me to do in the 1988 law. I think that is precisely what you asked me to do. I might add, if I may though, specifically, that the methamphetamine problem, the Administrator, Tom Constantine, did bring together a pretty decent group of people who are scared about the problem.

We have talked about it. We have captured their conclusions in a report. We have developed a strategy with Janet Reno, Bob Rubin, and I, and others, and this 1997 budget has 1,500 new agents and lawyers in it. Now, a lot of that is going to go to the Southwest border, the four States that are being inundated, the border almost being erased by international drug smugglers. A lot of it is going to go into that area, 25-plus percent up in funding.

Senator KERREY. I think you could also get a lot of additional public support, citizen support, if they saw that we supported you when you came and said, Well, I have only got four DEA agents in Nebraska, I have got six in Missouri, that is just not enough, and I have got to get troops out there.

General MCCAFFREY. I agree. It is not only methamphetamines, also, because they can be made in your State more effectively than you can get coca into Mississippi.

Senator KERREY. Absolutely. And the precursors are industrial.

General MCCAFFREY. But in addition, you get cities like Denver, who are now in the front lines of drug smuggling, it is not enough to say you have made an effort on the 2,000-mile border because you have got drug smugglers who are showing up in the interstates.

Senator KERREY. There are cities like Grand Island, NE, Lexington, NE, Scotts Bluff, cities that did not feel like they had a problem, and parents, all of a sudden, saying, "Where did this come from?"

General MCCAFFREY. It is a poor man's cocaine. It is high school chemistry. If you are a pharmacist you can know all about it and this could be the next disaster to punch us in the nose if we do not respond to it now.

Senator KERREY. I think that my own political instincts are in this regard, that if you reach the conclusion that you needed to put 1,000 people—just to pick a number, that is an easy number to pick—and you said I have got a situation here where I need 1,000 people out in the field and I have got to redeploy them, and I have got people doing something that is lower priority at the moment, and I have got to move them. I want to move them.

Now, I understand that you cannot take 1,000 people out of the Department of Agriculture and send them out as DEA agents. I understand that. But even if you were to say, and I am going to recommend a reduction in force in one area in order to ratchet it up in another area because this is not going to be with us just for 12 months, this is going to take me 5 years to whip this problem.

I mean, that kind of recommendation where you came in and said, I have got a lower priority. I understand this may step on some toes in the State Department or wherever else it is that you are making the recommendation, but I think taxpayers who are wondering, and you and I have talked about this. This is one of the other charts that I would like to use.

This is the total expenditures that we have put out there for drug use and this little line of people are the hardcore drug users, and we have not made—although overall consumption is down—we have got the hardcore users that are consuming $48 billion, or so, a year.

People are saying, Well, what are we getting for this? Are we making much of a dent in it. Look, this is Nebraska youth consumption. It is up rather substantially, as the chairman said. This is just 2 years, 1993 to 1995. This is adolescent drug use nationwide that is going up.

These ads that Jim Burke produce, I mean, these are powerful. That little girl saying, "I don't know, I guess my parents aren't asking me about drugs. They are telling me about matches but they aren't telling me about coke."

I mean, there is no question that that will have an impact. I think the more that you do, and you said to me earlier, which is that I want to lead the country to solve the problem. The more you say, I know how to lead, I do not know how to be a czar. Let the Romanovs figure that out. I know how to lead.

And the more you lead us on this thing, General, I think the more confidence the American people are going to have and I think they are ready to rally, I really do. I think they are ready to rally to the cause. They hate what is going on, whether it is in Aurora in Nebraska or York in Nebraska or in North Omaha. They do not like seeing kids die and the potential of their youth squandered like that as a consequence of consumption of something that everybody knows is dangerous and destructive.

So, I hope that you will take this little window of good will that you have got and do as you have done in the past.

General McCaffrey. I could not agree with you more, in my judgment. I told the President that the next meeting of the Drug Cabinet Council that I would like him to empanel will be in October. The first meeting I asked the other Cabinet officers to come in and tell the President and the Vice President what they are doing programmatically to support the new strategy and how will they bring online the programs to get behind the five goals and try to have a coherent long-term approach to it.

The next session I have told them they need to come in and talk about how do we craft a 5-year budget so that I can come down here every year and give you a 5-year program and allow you to debate years 5, 4, and 3.

Senator Kerrey. I was in the world's largest, most powerful Navy, not the Army as you were, but one of the things I learned from the Army I learned at Benning through the ranger's school was when you have a mission, you have got to come with a sense of urgency otherwise, and you know it a lot better than I because you have made a career of 5-paragraph patrol orders.

I see, and just again, it is my State and I look at it, but I see these people coming in and they are killing our kids, that is what they are doing. They are selling them drugs that they know are going to kill our kids, and I mean, I see them as the enemy.

And it seems to me that particularly where you know what to do and we know what to do, we know if we came in here and gave you the authority to redeploy troops in there, that you could go into Missouri and Nebraska, Iowa, Illinois, Alabama, these rural areas where we have got a methamphetamine problem, and I think you could lick it.

It is one part education. There is a lot of education that needs to be done and there is a lot of State Department of Health officials out there that could also be rallied to do community work and public education.

But a lot of it is law enforcement.

General McCaffrey. I agree.

Senator Kerrey. A lot of it is we do not know how to prosecute. You have got a rural guy out there. They are pleading it down. They are pleading drug charges down to DPI and as a consequence of the problem we have got between amphetamines and methamphetamines.

I think that you know how to bring a sense of urgency to this mission and I think you should be very intolerant, whether it is us or some political officer in the White House who is worried about stepping on toes, you should be very intolerant of us trying to do this thing as business as usual.

SOUTHWEST BORDER

General McCaffrey. I asked Attorney General Reno and Secretary Rubin to join me in El Paso, TX, and we are going to bring in the four border States there, and I have asked them to come in as a group, local, State, and Federal law enforcement from each of the States, present to the assembled Feds what their view of the real world problem is.

And then we will have a series of panels and we will try and get at a better understanding of how do we organize ourselves, the prosecutors, the law enforcement officials, and combine it with our foreign intelligence capabilities and do it in some cooperative manner with Mexico.

The bottom line is I owe you, it seems to me, by next summer a new architecture to address these problems.

Senator Kerrey. Mr. Chairman, this will be the last statement, but we see the terrorists in Saudi Arabia kill 19 GI's. It brings a gasoline truck up and detonates it with God knows what he had in that thing, but killed 19 of our people.

Judge Freeh deploys FBI forces and he knows right now we are going over there and we are going to help fix this problem. That is the kind of thing that I would like to see you start doing. I mean, you probably already are. I do not want to make it sound like you are sitting on your butt not doing anything, but I just want to reinforce my support for that kind of action.

If you come to me and say, you know, I know you think you have got it figured out but I need the troops you have got here, I have got to take them over here. I need action and results. I really think

the American people and Republicans and Democrats, all of us, would support that kind of action.

Senator SHELBY. To do that, General, I know your background. We welcome you and your leadership ability to the drug czar's office because, as I have said earlier, and you know Senator Kerrey, along with a lot of people, have been very skeptical about this, we believe you are going to bring a strong measure of leadership. But as Senator Kerrey said earlier, this urgency of the situation is important.

People act on urgency. The American people respond to that and you are in a position, with your background, to get people's attention and perhaps even get the White House's attention in a substantive way and not just a political way.

I want to mention interdiction. Interdiction has had its critics through the years, General. There have been a lot of people say that too much funding goes to interdiction but interdiction efforts make up less than 10 percent of the drug budget.

Do you want to comment on that?

SOURCE COUNTRY EFFORTS

General MCCAFFREY. Well, I promised the House leadership already and I will reiterate it to you, that I will give this a zero-based review and will sort out what is working and what is not. It is clear to me there has been inadequate attention to forming partnerships with a coalition of our allies on interdiction.

It would seem to me, in addition, that as we look at Peru, which is central to this effort, 80 percent of the cocaine in America comes out of Peru, 80 percent. We have got an honest President down there. He defeated the internal insurrection mostly. He is convinced that foreign drug criminals are killing Peruvian kids and police and he wants to cooperate.

He is going to do it because he is focused on the Peruvian people and not on our children.

Senator SHELBY. Where are the laboratories located?

General MCCAFFREY. Well, increasingly they are moving into Peru. It used to be they were all in Colombia but now we are seeing a readjustment on the battlefield, if you will, of this whole drug threat.

Senator KERREY. And they will use 8- or 9-year-old kids to work in those laboratories, completely naked down there, stomping on corrosive materials.

General MCCAFFREY. We have seen a reasonably effective effort by the Peruvian Air Force, by the United States Air Force, by our intelligence collection system, by the Colombian Air Force, and by the police forces and the air bridge out of Peru has been in a tactical way jeopardized in the last year. We need funding for that sort of effort.

Senator SHELBY. How much money is going into Peru? Because if 80 percent of the cocaine is coming out of there, how much money is flowing in there to their economy?

General MCCAFFREY. $25 million.

Senator SHELBY. I am talking about the product, for the product. In other words, they are producing 80 percent and they are getting just $25 million for the product?

General McCaffrey. No, no; our effort is disproportionate to the threat. Our effort is probably about $25 million. It is hard to sort out Peru alone because the interdiction budget——

Senator Shelby. What is the value of the crop of the final product? That is what I am getting at.

General McCaffrey. Let me give you the most useful answer. The crop is not worth anything. There is a markup of 100 to 200 between the Luyaga Valley and the streets of Omaha. And so the campesino out in the Luyaga is getting $400 or $500 a year. He gets a bicycle, shoes for his children, and rice and beans. He gets nothing.

That same product, and he is selling leaves, coca leaves to the nice man who will stamp it into paste in Peru. It used to be flown into Colombia.

Senator Shelby. What is he getting for stamping it into paste?

General McCaffrey. Below minimum wage, $1 a day. He is poisoning his own land because these chemicals are enormously corrosive to the environment.

Senator Shelby. And his own blood.

General McCaffrey. And he is living outside the law and he knows that. And a campesino, given an option, would rather grow food than illegal drugs. So, I think the bottom line is interdiction in source country operation deserve a zero-based look. But I would also add that the giant expenditures of 1990 and 1991 where we started this thing up, we put two ROTHR's online. I hope we get the third one online in the year to come, these over-the-horizon backscatter radars.

We are going to end up being able to see aircraft down to 100 feet off the deck with a high probability of having a computer sort the track, suspect tracks, target of interest, identify them, and arrest them. That is what we are working to produce.

But the drug smugglers have changed their mode of operation.

Senator Kerrey. What about pursuit into Brazil? Is that a problem still?

General McCaffrey. Well, we are working to develop a coalition of democracies to address the problem. Right now, at Howard Air Force Base in Panama we have got Peruvian officers, Venezuelan, Ecuadorian, Colombian. We have had a visit, very significant visit, from the Brazilians and they are considering how to cooperate in defending our airspace and gain their own national sovereignty over their airspace.

Right now, they are becoming the next target in international crime. If they cannot get from Peru to Colombia and to South Florida, which they are no longer able to do, they will seek their market through other manners. We are seeing a move to riverine and coastal trafficking.

The *Natalie II* takedown was 800 miles at sea in the Pacific, a brilliant intelligence Coast Guard operation with 12 metric tons of cocaine. Even when we knew where it was, and we are trying obviously to protect our sources and methods, it took us almost 3 days to find the drugs on the *Natalie II*.

So, this is not going to be an easy job. We almost thought we were going to have to destroy the ship to find the drugs.

Senator SHELBY. General, what about an increased request for international activities? Can you comment on the international activities?

General MCCAFFREY. We propose that be up by 25 percent. Again, the House action, so far, has not been as yet supportive, I do not believe, of what we are requesting. But at some point, we have got to get into Peru and Mexico, in particular, but also, Panama, and transit countries who see themselves as being at risk from this juggernaut of international crime. We are going to have to work with Venezuela, which will become another major smuggling route, not only to the United States but to our European neighbors.

I mentioned the number of cocaine users in America is down by 75 percent. In my judgment, it will continue to drop in the years to come. That cocaine is going someplace else. It is going to go to Eastern Europe. It is going to go to the Orient. They are going to look for a market and Venezuela is another way to get out to their markets.

So, we are going to have to build a new coalition in a cooperative manner and that requires money, and there is a 25-percent increase in this budget to do that.

Senator SHELBY. General, you are a candid man and we appreciate that. Do you believe you can make a real difference? I believe you think you can. You have got to know you can, do you not? But you are going to have to have help.

General MCCAFFREY. I told the President I was not particularly keen on taking the job because I did not want to leave the U.S. Armed Forces. There are two things I brought to the table. One, I was confirmable.

Senator SHELBY. You were.

General MCCAFFREY. And second, I was an optimist. It seems to me, Senator, if we get organized, if we focus on local action, these coalitions of America, parents, coaches, schoolteachers, if we get Jim Burke and the news media and the most creative industry we have in the United States, the advertising industry, if we get on the problem and stay on it. And this metaphor "war on drugs," I think, failed us at certain critical moments.

It works when you are talking air interdiction. It does not work when you are talking addiction. Senator Kerrey correctly has said, What have you done about those who are addicted? There are 3.6 million of them. They are our mothers, the other guy on the track team, our Vietnam buddies, that is who is addicted. They are committing 170 crimes a year.

Nobody loves a heroin addict at age 30. They have got AIDS. They have got tuberculosis. They are a wreck. And we have got to get out there and do something, and I think we can if we get organized.

Senator SHELBY. General, I want to thank you for being with us today. I think we all agree that the drug issue continues to tear at the very fabric of our being in America. I think we need to seriously, seriously face up to the problem and I will leave it at that.

I am sorry we have had to cut short the meeting. We look forward to working with you. I have a number of questions, and I am

sure Senator Kerrey would, and other members, for the record that we would like to propound to you.

We wish you the best because what you do is important and maybe one of the most important things in America.

Senator KERREY. You are quite right. I will submit some longer questions. But one of the things we talked about before, you mentioned the most creative sector of our economy is the advertising industry and they unquestionably have been very, very helpful as a result of Jim Burke's extraordinary will and leadership and capacity to sustain the effort. This is a man who just simply never ever gives up. He is remarkable as a result.

We talked once before about trying to enlist the support of the pharmaceutical industry, also very creative, selling 80 billion dollars' worth of legal drugs a year. And they know a thing or two about addiction, as we have talked about before.

They call it product loyalty. Can you tell me, do you think there is a potential there to get the pharmaceutical industry to come to the table or are there things we can do to provide them with incentives to develop some market-base solutions?

General MCCAFFREY. Senator, if you will allow me, I will submit for the record a more detailed answer because they have come forward on their own. A bunch of the companies have offered to use their sales force to help educate the medical community, which is abysmally ignorant of alcohol and drug addiction in their day-to-day interaction with patients.

They have already volunteered to do this at enormous personal expense to the corporations. If you will, let me lay that out for you in a written answer.

But I think your central point is a good one. The medical community and the pharmacists of America can do an enormous amount for us, and the pharmaceutical corporations, and I think they will.

There is a business decision here, though, that I am learning more about in which there is no money to be made in heroin addiction. So, I am going to have to sort out the policy implications and I will come down and consult with the Congress, many of whom know more about this than anyone in America.

[The information follows:]

Pharmaceutical companies are proving to be willing participants in ONDCP's efforts to address illegal drug use. A prime example of their level of cooperation is the coordinated effort of Federal Government, drug companies, and physicians in a new program called Prescription for Prevention.

Announced by the President in March 1996, this program, in cooperation with the leadership of the National Pharmaceutical Council, provides physicians with educational materials for use in preventing and detecting drug abuse. Fifteen major pharmaceutical companies are the catalysts and distribution points for this material. Thousands of patients will receive the benefit of these materials. New initiatives are explored with pharmaceutical companies to pursue this critical avenue against illegal drug use.

Senator KERREY. I would like to talk to you about this one.

General MCCAFFREY. Well, I think that is what we have got to do. We have got to support public service by the pharmaceutical corporations.

SUBMITTED QUESTIONS

Senator SHELBY. Thank you, General McCaffrey. We will submit additional questions to be answered for the record.

[The following questions were not asked at the hearing, but were submitted to the ONDCP for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SHELBY

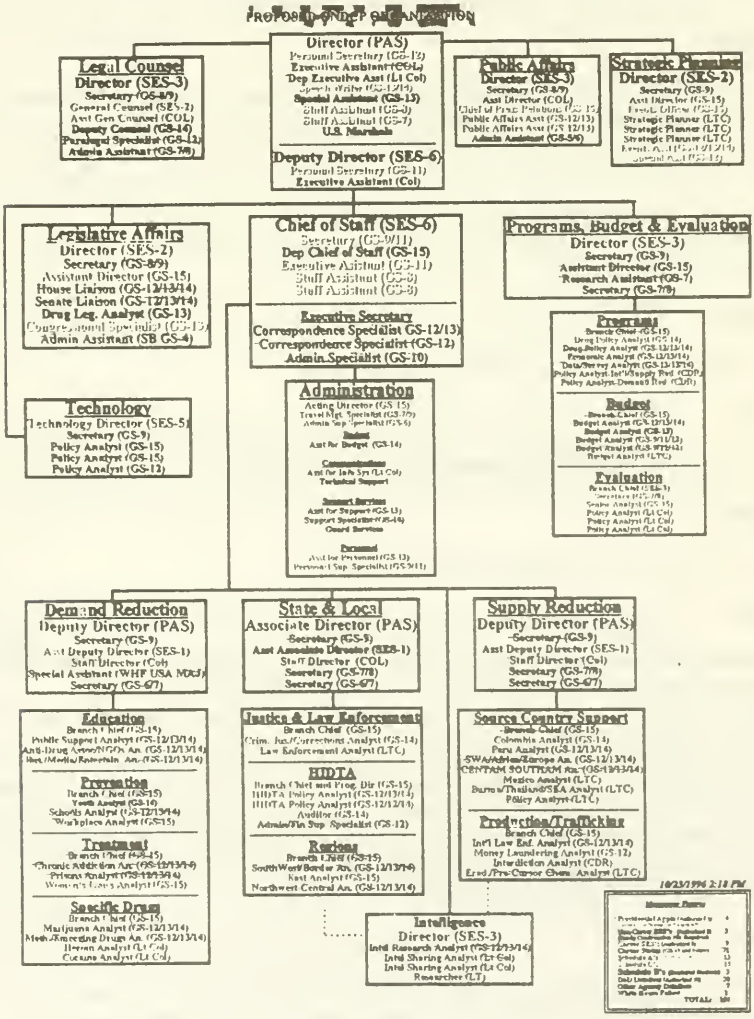
The President has guaranteed you personnel to do the job, and has requested funding to accomplish that goal. The Committee qualified the supplemental funding for increasing the size of your office pending an organizational plan. A draft and subsequent drafts have been provided the Committee. I would like to take a few minutes to discuss your staffing at ONDCP.

Question

1.a. Could you briefly outline how the office will be structured?

Answer

A copy of the ONDCP organizational chart ia attached as Tab A.



Program Components

(1) Office of Demand Reduction
(2) Office of Supply Reduction
(3) Bureau of State and Local Affairs
(4) Counter-Drug Technology Assessment Center

Organizational Support

(1) Office of Legal Counsel
(2) Office of Public Affairs
(3) Office of Strategic Planning
(4) Office of Legislative Affairs
(5) Office of Programs, Budget, Research and Evaluation

Question

1.b. Is this similar to the structure that existed prior to the President's decision in 1993 to reduce the office? If not, how does your structure differ?

Answer

ONDCP has maintained the same basic organizational structure. However, the Office of Deputy Director and the Office of Strategic Planning have been added to increase ONDCP's ability to function as needed.

Question

1.c. Are all four of the Senate confirmation positions filled?

Answer

No. The only Senate-confirmed position filled is that of the Director.

Question

1.d. How close are you to having the other positions filled?

Answer

Of the remaining three Senate-confirmed positions to be filled, the President has nominated two candidates: Ambassador Alan Flanigan for the position of Deputy Director for Supply Reduction, and Ms. Ricia McMahon for the position of Deputy Director for Demand Reduction. Unfortunately, neither nominee was confirmed during this Congressional session. Ms. McMahon is expected to be named as a recess appointment shortly by the President; and ONDCP anticipates a hearing before the Senate Committee on Labor and Human Resources soon after Congress reconvenes. Ambassador Flanigan has withdrawn his nomination due to family circumstances; ONDCP is currently interviewing candidates for the position. ONDCP is also interviewing candidates for the position of Associate Director for State and Local Affairs and expects to propose a nominee in the near future.

Question

2. You indicated earlier that you are concerned that the House action earmarking salaries and expenses funding for certain activities will adversely impact your staffing levels. Could you please elaborate on this?

Answer

The reduction of salary funding by $2.5 million with a corresponding reduction of 25 FTEs would have had a severe impact on the planned staffing of ONDCP. This funding has been restored. It is important to build the support structure in staffing at ONDCP to boldly implement the goals of the *National Drug Control Strategy*. The restored funding will allow this critical work to go forward.

Question

3. The ONDCP in consultation with a civilian law enforcement agency decides that it requires resources from the Department of Defense to run a special operation, or meet unanticipated requirements. The Department of Defense is not thrilled with expanding their funds, even if they are designated for anti-drug activities, because they wish to use them for Defense related costs and drag their feet--this is not part of the hypothetical, by the way. The officer plans to return to DoD shortly and hopes to further his or her career, where are his or her loyalties going to be?

Answer

DoD officers take an oath to uphold the Constitution and obey the lawful orders of their superiors in the chain of command. In the assignment of DoD personnel to other Federal agencies, which is common place, DoD officers fulfil their oaths by carrying out the lawful command of their Federal agency supervisors in a highly professional manner.

Question

4. Civilian and military bureaucracies don't necessarily run the same. I am sure that you have experienced this phenomenon. Is the joint use of civilian and military personnel working?

Answer

Yes, it is. Our officers are coming from a Federal department led by civilians. We are finding their integration into ONDCP little different from that of civilians we are hiring from other Federal agencies or the private sector. Our civilian managers are finding that our officers bring a wealth of experience, be it as drug testing and chemical experts or as air interdiction specialists.

Question

5. The President is requesting approximately $15.1 billion for anti-drug efforts in fiscal year 1997. This is an increase of about 9.3 percent. What are the highlights of those budgets and what will these increases do that hasn't been done in the past?

Answer

The Administration's FY 97 request includes enhancements for drug prevention and treatment programs, support for implementation of the international drug control strategy, additional emphasis on efforts to stop the flow of drugs at the border, strengthening of local law enforcement initiatives, and more resources to communities to combat the drug problems they face every day. The 1996 *National Drug Control Strategy* establishes a long-term planning commitment to pursue the necessary resources for key drug program areas. The FY 97 Federal Drug Control budget request represents the first year of this long-term commitment. In addition, the Administration's supplemental counternarcotics initiative would provide an additional $250 million in FY 97 for near-term high-impact drug program efforts.

Following are the major counter-drug activities funded in the FY 97 drug control budget by category.

(1) Reducing Adolescent Drug Use and Violence

The Administration's *National Drug Control Strategy* makes it a priority to provide parents and communities with the resources needed to persuade youth not to use drugs. The FY 97 budget includes resources to support this priority.

- The *Safe and Drug Free Schools and Communities Program* (SDFSC) -- A total of $540 million is requested in FY 97 for the SDFSC program, $515 million to support grants to governors and State education agencies for drug prevention and violence prevention. The request also includes $25 million for SDFSC National Programs to support drug and violence prevention activities. In total, the SDFSC program serves 39 million students in 97 percent of the Nation's school districts.

- *Corporation for National and Community Service* -- A total of $38.5 million in drug-related resources is requested in FY 97 to expand the involvement of volunteers in responding to a wide range of community needs, including drug prevention, by reaching high-risk youth and the communities in which they live.

- *Administration for Families and Children* (ACF) -- A total of $82.6 million is requested in FY 97 for the ACF. The ACF administers several programs that target hard-to-reach and at-risk populations, including runaway and homeless youth, and youth gangs.

- *HHS Drug Prevention* -- HHS's SAMHSA budget includes $371.4 million in FY 97 for drug prevention programs and demonstrations that target high-risk youth, community partnerships, and other public education programs.

- *Department of Labor Drug Prevention* -- A total of $60.9 million in drug-related resources is requested by the Labor Department for drug prevention activities. These activities include employment and training, education, and counseling to help at-risk youth obtain the skills they need to avoid the lure of drug use and succeed as adults in the workplace.

(2) Increasing Treatment In and Outside the Criminal Justice System

Treatment must be made available to all those who need it. The Administration is requesting additional resources to target treatment both inside and outside the criminal justice system.

The total FY 97 drug control budget request for drug treatment is $2.9 billion, $229 million more than the FY 96 level. Drug control funding for treatment includes the following major components:

- The *Substance Abuse Performance Partnership Grant* -- The Administration is requesting $904 million in drug-related resources out of the total $1.3 billion for the Substance Abuse Performance Partnership Grant. This program is a major source of funds provided to the States to support substance abuse treatment. This program helps to expand and enhance the availability, delivery, and quality of prevention and treatment services, nationally, while increasing State flexibility to target funds to local substance abuse treatment priorities. According to the most recent estimates provided by HHS, approximately 1.8 million people received treatment in 1994.

- *Substance Abuse Treatment in Federal Prisons* -- A total of $25.2 million is requested in FY 97 for this program. With this funding, the Federal Bureau of Prisons will be able to provide residential substance abuse treatment and arrange for appropriate transition

services for all eligible inmates. Residential treatment includes individual and group activities, lasting from six to 12 months, provided in treatment facilities set apart from the general prison population.

- *Substance Abuse Treatment in State Prisons* -- A total of $35.6 million is requested in FY 97. This program provides funding for discretionary grants to States to develop and implement residential substance abuse treatment programs within their correctional facilities. To receive grants, States must outline a plan for substance abuse testing of prisoners and include coordination between the State or local drug and alcohol abuse agency and the Department of HHS in the development of residential treatment facilities.

- *Drug Testing* -- $42 million is requested for the Administration's criminal justice drug testing initiative. Under this initiative, all those arrested for Federal crimes would be drug tested before being released back into the community.

(3) State, Local, and Community-Based Initiatives

The *National Drug Control Strategy* recognizes the important role of States and localities in addressing the problems of illicit drug use and its consequences. The passage of the Crime Control Act of 1994 (P.L. 103-322) increased opportunities for additional funding to meet the challenge. In FY 97, the Administration proposes the following major programs to enable State, local, and private agencies to augment their efforts to further reduce drug use.

- *Community-Oriented Policing* -- Almost $2.0 billion is requested for community-oriented policing grants in FY 97. Of this, $644 million is "scored" as drug-related. This program serves as the vehicle for the Administration's strategy to fight violent crime and drug use by increasing the number of State and local police officers on the streets, promoting the use of community-oriented policing techniques, and implementing training programs. The total budget request for this program in FY 97 will fund additional officers in local communities, along with three other closely-related programs: Police Recruitment, the Police Corps, and the Law Enforcement Scholarship Program.

- *DEA's Mobile Enforcement Team (MET) Program* -- A total of $5.9 million is requested in FY 97 to support DEA's MET program. This program provides guidance and other assistance to local police agencies and State and local police departments to disrupt and dismantle the most violent gangs involved in drug trafficking.

- *Community Partnerships* -- The budget for the Substance Abuse and Mental Health Services Administration (SAMHSA) includes $371 million for drug prevention programs. Included in this amount are resources to continue SAMHSA's Center for Substance Abuse Prevention's Community Partnership Demonstration Program. This program promotes coalitions of parents, schools, religious institutions, public housing, business, industry, government, and professionals in developing and maintaining long-term prevention strategies.

- *Drug Courts* -- A total of $100 million in FY 97 will support discretionary grants to State and local criminal justice agencies to provide court-mandated drug treatment and related services to nonviolent offenders. Grants will be used to provide for the full range of services for offender; including individual needs assessments, referrals to treatment, mandatory drug testing, graduated sanctions, and a full range of aftercare services (i.e., relapse prevention programming, health care, education, and vocational training). Violent offenders are not eligible for the Drug Courts program.

- *Edward Byrne Memorial State and Local Law Enforcement Assistance Program* -- A total of $535 million is requested in FY 97. Of this amount, $418 million in drug-related

resources is available to provide financial and technical assistance to States and local governments to control drug abuse and violent crime and to improve the criminal justice system. This program supports multi-jurisdictional task forces, demand-reduction education programs involving law enforcement officers, programs that provide alternatives to incarceration in jails and prisons, the Weed and Seed Program, and programs to strengthen the operation of local judicial systems.

- *High Intensity Drug Trafficking Areas (HIDTAs)* -- A total of $103 million is requested in FY 97. The HIDTA program currently supports six "Gateway" HIDTAs—the Southwest Border, Houston, Los Angeles, Miami, New York, and Puerto Rico/U.S. Virgin Islands—the points through which the vast majority of drugs flow into the country and one "Distribution" HIDTA—Washington, D.C./Baltimore—an area where drugs are distributed to a large number of chronic, hardcore drug users. Three of these HIDTAs—Miami, Puerto Rico/U.S. Virgin Islands, and Washington, D.C./Baltimore—include measurable drug treatment and prevention initiatives that concentrate on the clientele of the drug distribution organizations. The program also supports three Empowerment HIDTAs -- Atlanta, Chicago, and Philadelphia -- which are limited exclusively to Empowerment Zones.

(4) Securing Our Border Through Enhanced Interdiction

One of the Administration's top priorities is to enhance enforcement operations along the Southwest Border. This focus is critical since the vast majority of cocaine consumed in this country enters the U.S. via the Southwest Border. The goal is to stop the flow of drugs at and between our ports of entry along the Southwest Border. To this end, the Administration has proposed two initiatives in FY 97:

- *Customs Border Initiative* -- A total of $588.4 million is requested for the U.S. Customs Service, of which $504.4 million supports interdiction efforts. Included in this request is $51.0 million to provide 657 additional staff at ports-of-entry along the Southwest Border. These additional staff are needed to stop port runners, enhance interagency operations, expand the number of roving teams, augment block blitzes, and enhance other enforcement processes. The increased resources for Customs are in line with increases for the Border Patrol along the Southwest Border.

- *INS Southwest Border Initiative* -- A total of $306.7 million in drug-related resources is requested for the Immigration and Naturalization Service (INS). This request includes $95.3 million in drug-related resources for the Border Patrol, an increase of 25 percent over the estimated FY 96 level. The request provides a total of 700 more Border Patrol agents to stem the flow of illegal drugs and illegal aliens across the Southwest Border.

(5) Increasing Source Country Program Effectiveness

The 1995 *National Drug Control Strategy* called for a gradual shift in interdiction focus from drug transit areas to countries that primarily serve as the source for illegal drugs. In order to keep the pressure on source countries, the Federal programs supporting source country drug enforcement and drug control have been enhanced.

- The FY 97 budget request includes $193 million for international narcotics control for the *Department of State's International Narcotics Law Enforcement Affairs (INL)*. This is an increase of $78 million over the FY 96 enacted level of $115.0 million.

- The INL will direct $116.2 million in resources for the *Latin American Programs* in FY 97 to focus on the cocaine source countries of Colombia, Peru, and Bolivia and assist other Latin American governments to dismantle trafficking organizations, seize drug shipments, and reduce illicit drug production.

- Resources totaling $27.2 million will be used to fund the *Inter-Regional Aviation Support* program in FY 97. U.S. aviation assistance supports counternarcotics efforts in Latin America. The U.S. owned aircraft are based in Colombia, Peru, Bolivia, and Guatemala, and are capable of making temporary deployment throughout Latin America. As a result of successful institution building activities, the Air Wing's 57 aircraft (46 owned by State, 2 by Defense, and 9 by host nations) are increasingly flown and maintained by host governments. In FY 97, the increased funding will further enhance host government aviation capabilities, support law enforcement operations against cocaine and heroin traffickers, and eradicate coca and opium crops.

- The Administration is requesting a total of $18.9 million to support international programs of the INL for the *Asia/Africa/Europe Regional Program*. Funding will be used to enhance the counternarcotics programs in Thailand ($4 million), Laos ($2.5 million), Pakistan ($3 million), and Turkey ($0.4 million). Also included in this initiative is $5 million to increase narcotics cooperation of transit countries in the region, fund a pilot crop control effort in Afghanistan, and provide limited training and equipment to Eastern European countries.

(6) Supporting Effective Programs Through Research, Demonstrations, and Evaluation

The *National Drug Control Strategy* must be based on sound theory, solid research, and rigorous individual program evaluation. Facing today's fiscal reality of limited budget resources, decisions about the future course of action for drug control must reflect clear knowledge about what works.
The Administration's FY 97 request for drug control includes $559.2 million for Research and Evaluation. Most of this request is for the National Institute on Drug Abuse (NIDA), in support of *Treatment Research* ($274.6 million) and *Prevention Research* ($191.7 million).

- The Research program also supports *ONDCP's Counter-drug Technology Assessment Center (CTAC)*, with a total of $17 million requested in FY 97. CTAC serves as the central counterdrug research and development center for the Federal government.

- In addition, the Administration is requesting $352 million for *HHS' Substance Abuse Treatment and Prevention Demonstration Grants*, which will address the issue of increased access and effectiveness of services.

Question

6.a. Interdiction has had its critics through the years. There have been those that say that too much funding goes to interdiction. Interdiction efforts make up less than 10 percent of the drug budget. Through the years the interdiction effort has moved further from our borders with some success. Isn't it more cost effective to interdict drugs, than to fight them on our streets, or in our hospitals?

Answer

Interdiction is an important part of the systems approach to fighting drugs -- a comprehensive approach that must also include education, treatment, domestic law enforcement, and international cooperation and are reflected in the 1996 *National Drug Control Strategy*.
Interdicting the flow of illegal drugs into the United States is specifically addressed in Goals #4, "Shield America's air, land, and sea frontiers from the drug threat," and Goal #5, "Breaking foreign...sources of supply."

While United States and other law enforcement and interdiction efforts annually seize almost one-third of the total production capacity of 780 metric tons of cocaine, drug supply still exceeds

our demand. Hence, interdiction efforts, however cost effective, cannot by themselves achieve a net reduction of drugs in the United States. However, transit and source country interdiction programs can and do reduce the availability of cocaine in the U.S.

Question

6.b. Are we making progress in interdiction?

Answer

Interdiction is an important part of the systems approach to fighting drugs that also includes education, treatment, domestic law enforcement, and international cooperation. The *National Drug Control Strategy* addresses interdiction in Goal #4 which specifically calls for us to "Shield America's air, land, and sea frontiers from the drug threat." The Strategy is supported by a $15.1 billion FY 97 budget request, $1.437 billion of which will specifically support interdiction.

Interdiction success must be considered within the context of the total system and the current situation and not on seizure data alone. The level of seizures in any particular region is a function of the level of smuggling activity in that region and our effectiveness in detecting and disrupting the traffic. A decline in seizures does not necessarily correspond to a loss of effectiveness on the part of the U.S. in interdicting drugs. It could be the result of effective interdiction forcing the traffickers to alter routes and/or methods.

Our strategy is to determine where the traffickers are most vulnerable, and apply pressure there. In this context I think we have been successful. For instance, the situation in the transit zone is significantly different than it was in the early 90's. Because of our successes against air smuggling in the Caribbean, the air-to-surface mode ratio has shifted to maritime, an environment where targets are more numerous, harder to sort, tougher to monitor undetected, and especially hard to detect when hidden in bulk commercial cargo. Traffickers are no longer making numerous, easily detected flights into Florida.

We cannot abandon interdiction. If a sufficiently robust capability is not left in place as a deterrent, the traffickers will merely return to their old, and cheaper, modes and routes. What we do need to do is improve the effectiveness of interdiction systems by leveraging technology, maintaining flexibility of deployment, and providing more and better actionable intelligence.

Another area of success has been the strengthening of interdiction through regional coordination and cooperation. JIATF-East coordinates and directs as necessary the detection, monitoring, and sorting of suspect aircraft and vessels, and handoff to U.S. and foreign law enforcement authorities for apprehension. This includes multi-agency and multi-national assets. Through considerable negotiations with Caribbean countries and territories, the Coast Guard and Department of State have concluded bilateral maritime counterdrug agreements which greatly facilitate interdiction efforts by providing for ship riders, pre-approved entry into foreign territorial seas, and pre-authorized boardings.

Interdiction alone will not solve the Nation's drug control problems. However, it is an essential component of the *National Drug Control Policy*, serves as an effective deterrent to increased trafficking, and successfully keeps a substantial amount of cocaine out of U.S. neighborhoods.

Question

7. There is also an increase requested for international activities. Could you outline what the international programs are doing, and what the increases propose to do?

Answer

Resources for international programs increase by 25.4 percent, from $320 million in FY 96 to $401 million in the FY 97 request. Most of the resources for international programs support two agencies: the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) and the Justice Department's Drug Enforcement Administration (DEA). Most of the increase (from $135 million to $193 million requested) is proposed for INL.

Our international programs support the accomplishment of the objectives under Goal #5 of the *National Drug Control Strategy* "Break foreign and domestic drug sources of supply." These objectives include:

- Destroy major trafficking organizations by arresting, convicting, and incarcerating their leaders and top associates, and seizing their drugs and assets.

- Reduce the foreign availability of drugs through eradication and other programs that reduce drug crop cultivation and through enforcement efforts to attack chemical, money laundering, and transportation networks that support trafficking organizations

- Increase the political will of countries to cooperate with he United States on drug control efforts through aggressive diplomacy, certification, and carefully targeted foreign assistance.

- Strengthen host nation institutions so that they can conduct more effective drug control efforts on their own and withstand the threat that narcotics trafficking poses to sovereignty, democracy, and free-market economies. In the source countries, aggressively support the full range of host nation interdiction efforts by providing training and operational support.

- Make greater use of multilateral organizations to share the burdens and costs of international narcotics control to complement the efforts of the United States and to institute programs where the United States has limited or no access.

Resource increases will allow us to better support programs, including alternative development, to develop comprehensive regional counternarcotics efforts to reduce illicit drug crop cultivation and manufacturing, and attack major criminal organizations involved in illicit drug trafficking.

Question

8. International cooperation is not always easy to obtain. It has not always been on the top of the Department of State's agenda. Yet, without it our efforts are thwarted on many attempts. Could you briefly discuss your views on our International efforts -- our successes, the failures?

Answer:

We must work cooperatively with major drug-producing and transit countries which have the requisite political will to assist us and improve their own national well-being by decreasing the production of illegal drugs and incarcerating traffickers. Beyond this, we need to work cooperatively with other consumer countries, for example the members of the European Union, to enhance the effectiveness of our efforts.

Drug trafficking is a world-wide phenomenon, and in the twentieth century it is not possible for the United States to significantly reduce the flow of drugs alone at a price the people of this country would be willing to pay. Therefore, international efforts make up an essential part of our strategy to reduce drug use in the United States. Two of our five strategic goals call for action in cooperation with foreign nations.

We have been successful in the last several years in creating a world-wide attitude that drug trafficking is a threat to source and transit countries as well as consuming countries. This is extremely significant because it allows for the development of shared objectives among various countries. Several years ago illegal drugs, especially cocaine, was perceived as a problem for the U.S. which did not affect producer countries. This politicized the drug issue and made it difficult to gain cooperation from developing countries where peasant farmers produced the drug and politically sophisticated, murderous criminals took enormous profits.

Recently President Zedillo of Mexico called drug trafficking the leading threat to Mexican national security. The government of Bolivia has succeeded in turning around a long-held perception that all coca was imbued with cultural, nationalistic significance: a sacred leaf. The government has educated the population to understand that production of coca is akin to cocaine trafficking, and Bolivia improved its illegal coca eradication efforts.

However, we have yet to see these changes of perception and national will translate into a significant reduction in the amount of drugs that enter the United States. We are spending only three percent of our counter-drug budget for international programs in FY 97, which is a 25 percent increase over the funding that Congress made available in FY 96. We have convinced our allies in the producing countries that they must take action against drug production and trafficking, yet when they come to us for assistance we frequently cannot help them. Much of our international leverage comes from the threat of decertification and cutting foreign assistance and support in international financial institutions. While this is a very useful mechanism which we will continue to employ, it can be difficult to ask our allies to do more when our principal incentive is a negative one.

Question

9. It is my understanding that the chairmanship of the international working group has been shifted from State to your office. Is that correct? How will this change impact our anti-drug efforts?

Answer

Yes. President Clinton signed Executive Order No. 13008 on June 3, 1996, which amended Executive Order No. 12880 of November 16, 1993. This E.O. changed the chairmanship of the Interagency Working Group (IWG) on international counternarcotics policy from the Department of State to the Office of National Drug Control Policy (ONDCP). Because ONDCP already has responsibility for the coordination of all drug control policy, giving the chair to ONDCP should streamline the process and promote better coordination of international policy development and implementation.

Question

10.a. Disagreement between government agencies is legend, as are documented incidences of failure of agencies to basically disregard guidance from the ONDCP. Many attempts have been made to avoid these problems, yet it doesn't appear that things change much. You indicated in your formal statement that the President recently held the first ever cabinet meeting which was devoted solely to the drug issue. What was the thrust of that meeting?

Answer

The May 28, 1996 meeting of the President's Council on Counternarcotics focused on a discussion and overwhelming endorsement of the five goals of the *National Drug Control Strategy*. Cabinet officers suggested ways in which their departments might contribute to the attainment of the goals. Both the President and Vice-President attended and made opening

remarks charging the Council's members to press efforts to counter the impact of illegal drugs on the United States. A spirit of interagency cooperation prevailed, with a clear recognition of the earnest nature and dimensions of the illegal drug problem. There was strong support for counterdrug leadership by ONDCP.

Question

10.b. Were any decisions reached?

Answer

The President's Council concluded that there was no single solution to our nation's problems with illegal drugs and drug trafficking. A healthy consensus prevailed in favor of interdisciplinary, long-term efforts that would employ resources efficiently to address the challenges on both the supply and demand sides of the issue. Participants were optimistic that an aggressive but balanced approach spanning areas such as education, enforcement, demand reduction, intelligence and information-sharing improvements, more efficient organization, and international supply reduction will lead to a marked downturn in illegal drug use in America. There was strong endorsement of the Strategy's goals and objectives.

Question

10.c. Will we see changes, or will it remain business as usual?

Answer [Question refers to Cabinet Council meeting.]

Drugs pose too important a threat to our citizens, particularly our children, to ever be portrayed as "business as usual". The Administration has directed movement in many areas to reduce the use of illegal drugs in America. Foremost is the reduction in demand. We are investing a considerable effort to reach all of our citizens, but most importantly children, to turn them away from drugs. Prevention and education are key elements of our strategy. So too is law enforcement, and we are organizing efforts with Federal, State, and local agencies in high drug trafficking areas of the country. We have committed additional assets to the Southwest Border to turn back the heavy volume of drugs (we estimate 70 percent of the drugs entering the U. S. come through this border). And we are active abroad in interdicting the flow of drugs. The President's Council provides an important forum to assure inter-agency planning to implement the drug strategy.

Question

11.a. The President requested supplemental appropriations in April to assist interdiction efforts. Due to the timing and the structure of the request the Congress did not act on this request, yet all indications were that it would be considered in the context of the fiscal year 1997 defense bill. I assume you are fully supportive of the request, as it was submitted. Is that correct?

Answer

ONDCP fully supported the supplemental counternatrcotics initiative. At the request of the President, ONDCP headed the interagency effort to recommend a reallocation of $250 million into high impact, near-term counterdrug programs which respond to emerging counterdrug threats.

Question

11.b. What is the status of the request?

Answer

The FY97 DoD Authorization bills in both the House and Senate addressed many of the requested items within the $250 million request that came under DoD purview. $139 million of the original initiative was funded in the FY 97 DoD Appropriations bill and the Omnibus Appropriations bill, leaving $111 million unfunded. An additional $107 million was provided for related activities not included in the original $250 million initiative. However, virtually none of the demand reduction-related items included in the $250 million initiative were funded.

The status of the entire FY 97 $250 million counternarcotics supplemental initiative is attached:

$250M FY97 SUPPLEMENTAL REQUEST

($ IN MILLIONS)

REQUESTED PROGRAM	AGENCY	AMOUNT REQUESTED	CONFERENCE (REQUESTED)	CONFERENCE (NOT REQUESTED)	REMARKS
DoD Programs:					
2 P-3 Aircraft for Customs	DoD	$98.000	$58.200		(SEE NOTE 1)
TPS-70 Radar	DoD	$15.000	$10.000		
Non-Obtrusive Inspection System	DoD	$8.000	$8.000		
National Guard Marijuana Eradication	DoD	$3.000	$3.000		
Classified Programs	DoD	$10.000	$3.078		
National Guard	DoD	——		$40.000	
Gulf States Counter-Drug Initiative	DoD	——		$8.300	
Multi-Jurisdictional Task Force Activities	DoD	——		$1.800	
C-26 Reconnaissance Upgrade	DoD	——		$3.500	
National Interagency Narcotics Institute	DoD	——		$3.000	
Southwest Border Information	DoD	——		$7.000	
SIGINT Equipment for Southwest Border	DoD	——		$2.000	
Riverine Operations in South America	DoD	——		$2.000	
Support for Military Counter-Drug in Mexico	DoD	——		$8.000	
Laser Strike	DoD	——		$11.000	
Total DoD Action		$132.000	$78.278	$88.800	
Other Agencies (thru ONDCP):					(SEE NOTE 3)
Operation Gateway	USCS	$7.000	$7.000	$21.000	(SEE NOTE 2)
P-3 Aircraft	USCS	——	$42.000		(SEE NOTE 1)
Riverine Craft	State	$4.000			
Aviation Refurbishment	State	$11.400			
Host Nation Aviation Support	State	$5.000			
Source Nation Interdiction	USCG	$6.800			
Transit Zone Interdiction	USCG	$8.000			
Methamphetamine Reduction	DEA	$10.000	$10.000		
Intelligence & Linguist Support	DEA	$3.000			
Classified Programs	DEA	$3.000			
Marijuana Eradication	DEA	$2.000			
Digital Intercept Equipment	FBI	$5.000			
Linguist Support	FBI	$2.000			
HIDTA Enforcement Actions	ONDCP	$2.000			
Youth Awareness Campaign	HHS/DOL/Educ/NIDA	$15.750			
Criminal Justice/First Offenders Program	ONDCP/DOJ/HHS/NIDA	$22.600			
Cocaine Medical Research	NIDA/CTAC	$5.850			
Break the Cycle" Program	ONDCP	$3.000			
Director's Initiative Fund	ONDCP	$2.000	$2.000	$58.900	
Total for Other Agencies		$118.000	$61.000	$79.900	
GRAND TOTAL		$250.000	$139.278	$168.700	

Note 1: Original request was for entire $98M for P-3 aircraft to be funded in DoD account.
Conference action provides $56M to DoD and $42M to Customs (thru ONDCP Special Forfaiture Fund)

Note 2: Funding for Operation GATEWAY will go directly to Customs rather than pass thru ONDCP Special Forfeiture Fund account

Note 3: Special Forfeiture Fund availability tied to a Presidential request for supplemental as an emergency requirement

Question

12.a. The Counterdrug Technology and Assessment Center provides funding for various drug related projects. Could you provide for the record a listing of those projects funded in past years which have proven successful?

Answer

Each year CTAC produces a Counterdrug Research and Development (R&D) Blueprint Update to summarize the national counterdrug R&D program. Sections in the blueprint are devoted to CTAC's past accomplishments and plans for the coming year. The following titles and principal user agencies are among those projects from which useful results have been obtained:

Projects
Chemical Discrimination by Acoustics (FY 92 - completed) (Customs)
Transportable Observation Platform (FY 92 - completed) (INS/Border Patrol)
Modular Sensor Design (FY 92 - completed) (INS/Border Patrol)
Text Based Retrieval (FY 92 - completed) (FinCEN)
Channel Surveillance Sonars (FY 92 - completed) (Customs)
Chemical Taggants (FY 92 - completed) (DEA)
Project Breakthrough (FY 92 - FY 97) (DEA)
INMARSAT C Miniature Data Terminal Design (FY 92 - completed) (DEA)
Top Water - acoustic surveillance (FY 92 - FY 95 prototypes being evaluated) (FBI)
Antibody-based Field Test Kits (FY 92 - completed) (FBI)
Miniature Gamma Backscatter (FY 92 - completed) (Customs)
Signature Analysis for Cargo (FY 92 - completed) (Customs)
Refined Biosensor for Heroin (FY 92 - completed) (Customs)
Cocaine Econometric Model (FY 92 - completed) (ONDCP)
Drop and Run Video (FY 92 - completed) (FBI/DEA)
Carrier Current Audio (FY 92 - completed) (FBI)
Electronic Infrared Camera (FY 92 - completed) (FBI)
Illicit Drug Signatures and Phenomenology (FY 92 - ongoing) (Customs, Coast Guard)
Concealed Audio Transceiver (FY 92 - completed) (FBI)
Narcotics Detection in Mail (FY 94 - completed) (Customs)
Locating and Tracking System (FY 94 - completed) (FBI)
Airborne Navigation and Command (FY 92 - FY 96) (FBI)
Brain Scanning Research Facility (FY 92 - completed) (NIDA/ARC)
Cocaine Catalytic Enzymes (FY 92 - ongoing) (HHS)
Olfactory and Canine Research (FY 95 - present) (Customs)
Ultra-Wide Band Sensor System (FY 92 - completed) (INS)
Data Fusion Technology Development (FY 93 - ongoing) (FBI and State and locals)
Cocaine and Heroin Impurity Signatures (FY 94 - completed) (DEA)
Topographic Maps with Building Information (FY 94 - completed) (FBI)
Gas Chromatography (FY 94 - completed) (Customs)
Gamma-ray Detector for Tanker Trucks (FY 94 - completed) (Customs)
Small Look Miniature Video/Audio Recorder (FY 94 - completed) (FBI)
Low Probability of Intercept/Detection Body-Worn Transmitter (FY 94 - completed) (FBI)
Detection of Illicit Drugs (FY 94 - completed) (Customs)
Real-time Voice Identification (FY 94 - completed) (DEA)
Drug Evaluation Network System ((FY 94 - ongoing) (HHS)
Drug Testing with Hair, Sweat and Saliva (FY 93 - ongoing) (First Offenders/ New Orleans DA)

Outreach (FY 92 - present)

Technology Symposia on Cargo Inspection Technologies (FY 92 - Customs)
Tactical Technologies (FY 93 - FBI and DEA)
Drug Abuse Treatment Technology (FY 94 - NIDA/ARC)
Law Enforcement Technologies (FY 95 - all)
One-day Technical Workshops (FY 96 - State and locals)

Technology Testbeds (FY 92 - present)

Narcotics Detection Technology Assessments (FY 92 - ongoing) (Customs)
Radiochemistry laboratory at the Addiction Research Center (FY 92 - completed)
New York City Testbed (FY 93 - present) (FBI)
Data pager, tracking and surveillance, and communications technology
Border Research and Technology Center (FY 94 - present)
Organized Crime Task Force, White Plains NY (FY 95 - completed)

Cellular phone patterns (GLADYS)
Western Florida Counterdrug Information Network - Pinellas County (FY 95 - ongoing)

Question

12.b. Also a listing of those projects funded in Fiscal Year 1996?

Answer

The following list contains titles for those CTAC projects funded in FY 96: (Several projects, not listed, continued in FY 96 on FY 95 funds and will need continuations in FY 97.)

Earmark for Model Drug Law Conferences
Earmark for El Paso Intelligence Center
Testbeds, Advanced Technology Prototype Evaluations, Infrastructure Support and Outreach Program
Advanced Mobile Command and Control
Data Fusion (TVA/UT Law Enforcement Consortium)
LEA Networks/Cellular Phone Use Patterns (GLADYS)
Drug Evaluation Network
Cocaine Antibodies
Hair, Sweat and Saliva
Narcotics Detection Technology Assessments
Electronic Tracking Vehicles
Money Laundering
Forensics Research
Advanced Mapping Technology
Canine Research
Tactical Boarding Technology
Philadelphia Supernode
Addiction Research Center Technical Support
Brain Imaging Technology
Wireless Technology
Therapeutic Drug Development
Corrections Drug Testing Technology

Question

13. The President's budget is requesting $17 million for the Counterdrug Technology Assessment Center for FY 1997 -- of this amount how much will be used to continue current projects?

Answer

Of the $17 million requested for CTAC, the entire amount will be allocated to continue multi-year projects. With three projects delayed from FY 96 and multi-year projects continuing in FY 97, the entire $17 million requested will be allocated.

The Conference Report accompanying the FY 96 Appropriations bill (P.L. 104-52) directed ONDCP to "apply $1,000,000 for the National Alliance for Model State Drug Laws for conferences..." As a result of this funding reduction, it was necessary for CTAC to delay three previously approved projects until FY 97.

Question

14. In the Fiscal Year 1995 and 1996 [the] Treasury Appropriations Bills, Congress appropriated funds to the Office of National Drug Control Policy for procurement of ballistics imaging systems to be used in test[s] designed to facilitate communications between differing systems. Chairman Lightfoot and I wrote letters to your predecessor, Dr. Brown, stipulating that these were tests to be conducted in a way in which the lesser system would be brought up to the level of the superior system. Over time, the conduct of the ONDCP in carrying out this initiative has been far from satisfactory. Basically, what was to be a simple and effective avenue of enhancing ballistics activity for the benefit of state and local enforcement groups turned into a game which stalled the process for nearly two years.

Today, in part because of past conduct on the part of ONDCP, we are still struggling in our efforts to put the best ballistics imaging technology in the hands of state and local law enforcement officials.

The National Institutes of Standards and Technology (NIST) has been working toward enhancing communications between ballistics imaging systems, namely the Drugfire System and the Integrated Ballistics Identification System (IBIS). I am advised that a report which NIST has issued, or will issue shortly, will include only the findings related to cartridge cases and bullets. This disturbs me because monies originally appropriated were intended to find communications solutions to entire systems, not partial systems. Further, the lesser technology was to meet the level of the superior technology. This situation says to me that this issue is still not being managed properly and in the best interest of law enforcement or the taxpayer.

This situation occurred prior to your taking office, and [I] am very concerned that we don't see a repetition of past events on the part of ONDCP with respect to ballistics or for that matter any other subject area. I ask that you look into this issue, and be ever vigilant to see that we don't expend funds and effort reinventing the wheel and focus on ways to assist law enforcement efforts.

Would you review this issue and insure that action is taken and that we do not face this type of problem in the future?

Answer

In January, 1996 ONDCP signed a memorandum of understanding (MOU) with the Bureau of Alcohol, Tobacco, and Firearms (ATF) and the Federal Bureau of Investigation (FBI). The parties to the MOU agreed to work together to achieve interoperability of ballistics imaging systems. Since January, pursuant to the MOU, the National Institute of Standards (NIST) has worked closely with the AFT, FBI and equipment vendors to make substantial progress.

In June, NIST issued a "Specification for Interoperability Between Ballistics Imaging Systems. Part I -- Cartridge Cases." This specification is the first in a series of planned documents that will specify the hardware and software requirements to permit interoperability between the Drugfire and the IBIS systems. Work is underway on developing Part II, a specification related to bullets. This project is a more complex technical task and involves the sharing of proprietary information by the vendors with NIST.

The goal of NIST's work is to reach a solution which will allow the systems to (1) capture an image according to a standard protocol and in conformity with a minimum quality standard, and (2) exchange images electronically in such a manner that an image captured on one system can be analyzed and correlated on the other.

To date, both ATF and FBI, and their respective vendors have worked with NIST. The technical discussions have proceeded in a professional manner and ONDCP expects the progress achieved

under the MOU to continue. All parties are committed to fielding the best possible ballistics imaging technology.

The funds Congress provided to ONDCP in FY 1995 to pursue interoperability are being used to carry out Congressional intent and the goals of the MOU. A substantial portion of these funds has been used to purchase ballistics imaging equipment for the Northern California Gun-Link Consortium as a test site for the interoperability of systems. Remaining sums will be used to complete the interoperability project.

Question

15.a. The budget includes a request for $1 million for policy research. Could you describe what policy research is, and what you hope it will accomplish?

Answer

A comprehensive picture of drug use and its consequences, drug production, and drug trafficking that is necessary to formulate national policy can be developed only by means of wide-ranging, interdisciplinary data collection and evaluation. Independent research sponsored by ONDCP is vital for obtaining unbiased views of drug trends.

At present, there are numerous research-based data sets containing information relevant to the development and evaluation of drug policy. Included in these are the full range of studies and surveys done by the Federal government, as well as a number of special studies done by State and local governments, foundations, the private sector, and institutes of higher education. While these studies and surveys contain a wealth of valuable information, the bulk of the analyses that flow from them do not relate to or act to serve Federal policy development. Rather, these analyses are more oriented towards scientific research, long-term evaluation, and gathering of information of use in making operational decisions relating to service delivery. While these efforts are certainly valuable, the informational needs of ONDCP policy makers have not always been adequately served.

ONDCP is at present the only Federal agency that has sought to address the need for policy-oriented research. Through our Data and Evaluation Subcommittee of the Research, Data, and Evaluation Committee, and direct contact with the various agencies that are conducting research, we have worked to coordinate and improve the scope, quality, and coverage of the various drug related data sets. Our intention is to better integrate information to support the strategic and budgetary processes and drive the research agenda in directions that support and illuminate the Administration's drug control objectives. The $1 million in our budget provides support for these efforts.

Question

15.b. Has this been done before, or is this new? If it is not new, where was it previously funded?

Answer

This is not a new effort. Since the establishment of ONDCP, we have relied on contracts with key drug policy research firms to assist us in gaining the information needed to guide and inform the strategic and budgetary functions of the Office. Beyond this, to assist in gaining the information needed to inform its strategic and budgetary functions, ONDCP has, over the course of its seven-year history, entered into a number of separate research contracts. The original research contract began as an effort to estimate the size and composition of the chronic, hardcore drug-using population. This was later expanded to provide firm, research-based estimates of the size of the domestic retail illicit drug market (the paper, *What America 's Users Spend on Illegal*

Drugs) and to monitor emerging drug use trends (*Pulse Check*). The second contract was developed to provide a tool for monitoring the heroin situation and to forecast any new epidemic of use. The third research contract funded work on modeling the demand for cocaine and for an analysis of the impact of supply versus demand programs in controlling cocaine. The estimate that about one-quarter of users consume 70 percent of the supply came from this study.

Based on what we learned in working with these first three research contacts (dating from early 1990), in late 1991 we began developing a comprehensive research contract to serve the needs of ONDCP for an extended period. The current research contract was signed in September 1992, after a nine-month competitive bidding process. The contract is a "firm, fixed price task order contract," which means that each task is separately developed and the cost negotiated before execution. This allows better control of both the costs and the timing of delivery. The contract allows for renewal on a year-to-year basis, with four yearly extensions available. We are in the fourth year of the contract at this time, with one further yearly extension available.

Question

15.c. How much will be devoted to new projects?

Answer

ONDCP expects that the majority of the $1 million for FY 97 will fund new work. However, final decisions about what to fund have not been made. Some of the $1 million will also provide support for existing research tasks that extend from year-to-year, providing consistent information for ONDCP. Included in these are the *Pulse Check*, which provides regular information about current drug use and marketing trends and is the only source of current information on drug use. It is one of ONDCP's regular publications, and is highly sought after by researchers and drug experts. Also included is the ONDCP *Consistent Illicit Drug Price Series*, a project that provides a quarterly and annual illicit drug price series for the U.S. and selected cities and is used to monitor market trends and in support of other analyses. It is the only price series that provides a consistent trend in illicit drug prices and differs from the broad range estimates provided by DEA. A final ongoing research project is *What America's Users Spend on Illegal Drugs*. This is a continuing effort to provide accurate estimates of the size of the domestic retail drug market, the size and composition of the user population, and the amount of illicit drugs consumed in the U.S. The fourth iteration will be released at the end of 1996.

Question

16. In Fiscal Year 1996, the Congress appropriated $103 million for High Intensity Drug Trafficking Areas. You are requesting the same amount for Fiscal Year 1997.

For the record, could you indicate how the Fiscal Year 1996 funds were dispersed, by HIDTA, and by State and local compared to Federal share?

Answer

HIDTAs	State/local	Federal	Total
Houston	4.8 M	4.8 M	9.6 M
Miami	6.3 M	6.4 M	12.7 M
New York	4.9 M	4.7 M	9.6 M
Washington/Baltimore	11.6 M	0.5 M	12.1 M
Puerto Rico/US Virgin Islands	4.5 M	4.5 M	9.0 M
Los Angeles	5.0 M	6.5 M	11.5 M
Southwest Border	23.0 M	12.7 M	35.7 M

Empowerment HIDTAs

Chicago	0.8 M	0.1 M	0.9 M
Atlanta	0.4 M	0.5 M	0.9 M
Philadelphia/Camden	0.3 M	0.4 M	0.7 M
National Institute of Justice		0.2 M	0.2 M
Total	61.6 M	41.3 M	102.9 M

Question

17.a. The House has indicated their wish to create new HIDTAS and have provided funding for them. Several Senators have contacted me concerning the necessity of creating HIDTAS in other parts of the country. Have you looked at the House proposal?

Answer

Yes. Whereas ONDCP is very pleased to have additional funding to expand the HIDTA program, the designation of HIDTAs in the Appropriations process undermines the statutory process Congress created in 1988. The 1988 Anti-Drug Abuse Act, as amended, specifically gives ONDCP the authority to designate HIDTAs based on statutory criteria with the support of Congress. ONDCP's authority to designate HIDTAs is based on its role in viewing the larger picture of drug use, availability and trafficking in specified areas of the country in consultation with other Federal and State officials.

Question

17.b. Have you looked at creation of additional HIDTAs?

Answer

Yes. The Administration designated three Empowerment HIDTAs in FY 95 with the intention of expanding them into full HIDTAs pending the availability of resources. ONDCP is considering additional HIDTAs because the potential for this program is significant. It is important, however, that the HIDTA concept be constructed in the larger framework of the larger, long-term drug control strategy.

Question

17.c. Does a need exist?

Answer

Yes. As the HIDTAs become more effective, some elements of the drug trafficking patterns shift to other areas of the country. The HIDTA program is achieving a level of success in developing local, State, and Federal partnerships that attracts many requests for additional areas to be designated as HIDTAs. We need to be proactive in addressing serious emerging drug threats throughout the United States.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

Question

1. The connection between illegal drugs and gangs is clear. Gang activity is on the rise, affecting children, families and communities across the country. What is ONDCP doing in its war on drugs to address the problem of gangs?

Answer

The *National Drug Control Strategy's* # 1 goal is "Motivate America's youth to reject illegal drugs and substance abuse." Goal #2 is "Increase the safety of America's citizens by substantially reducing drug-related crime and violence." ONDCP fully supports the FBI's Safe Streets Violent Crimes Initiative and the DEA's Mobile Enforcement Teams. Both of these efforts have proven successful in reducing drug-related crime by focusing on violent gangs and crime of violence.

ONDCP recognizes that a majority of drugs flow into a few regional areas of the country. Prior to FY 97, ten areas of the country had been designated High Intensity Drug Trafficking Areas (HIDTAs). In FY 97, Congress has earmarked funds for five additional areas to enable ONDCP to designate them as HIDTAs. HIDTAs support joint cooperation between Federal, State, and local officials on interdiction, treatment, and prevention efforts, as well as investigations and prosecutions.

ONDCP supports cooperation between Federal, State, and local agencies to specifically address the issue of violent street level gangs. Several examples of recent successes are noted below, but they do not reflect the numerous drug trafficking organizations targeted, disrupted, and dismantled by HIDTA task forces.

- During the first six months of FY 96 the Los Angeles HIDTA's INS "Bag and Tag" Violent Gang Task Force arrested 107 illegal alien gang members;

- In South Florida the HIDTA participating agencies identified 250 drug trafficking organizations, 129 money laundering organizations, and over 300 gangs. In FY 96, 72 money laundering and narcotics organizations were dismantled and 145 disrupted. Twenty violent crime organizations were dismantled and four disrupted through 3,000 arrests and the seizure of over $118 million in cash and assets.

- In Chicago a HIDTA task force was created to address the problem of the Gangster Disciples, a violent street gang dealing primarily in drugs and violence. Beginning its investigative activities in February of 1996, several criminal investigations were initiated which implicated leaders within the top echelon of the gang. Approximately three dozen gang leaders, members, and sources face prosecution.

Question

2. Recently, ONDCP coordinated over 60 representatives from over 30 civic and fraternal organizations nationwide to consider ways in which volunteers can help young people stay off drugs. This "Prevention through Service" summit considered ways to make drug use among youth a top priority for service groups. Could you please give us an update on this initiative and share with us your thoughts for any future plans?

Answer

ONDCP worked with Lions Clubs International in preparing a program for about 60 leaders of 40 major civic, fraternal, family, service, and anti-drug abuse organizations for its Prevention

through Service leadership summit. The objective was to share current prevention-based youth programs and goals, and discuss possible collaborative initiatives among civic organizations and with other promising prevention youth programs.

The historic, two-day event profiled both programs of participant organizations and Federal agencies, and identified numerous opportunities for civic associations to become more involved in substance abuse and violence prevention efforts. These groups also explained their needs and objectives. Membership of participant organizations totals 56 million and many of the groups agreed to include more prevention materials in their newsletters, magazines, and programs. Several have already begun to list hot line numbers, run articles and editorials, and provide more information about drug abuse to parents and children. Others will focus on substance abuse through workshops, speakers and panel discussions at their national conferences and meetings. Many of the groups have also begun to partner with each other and will continue to meet, plan, and collaborate on projects of mutual concern in the area of drug abuse and violence prevention.

ONDCP is now planning a follow-up meeting with these organizations for the Fall for the purpose of discussing more specific, collaborative program efforts to address adolescent drug use at the national level and locally through the affiliates of these groups. ONDCP is also working to address some of the requests made by participants at the June meeting, such as the need for greater numbers of adult volunteers to work with Scouting and other organizations in urban areas.

Question

3. In the course of your testimony before the House Appropriations Subcommittee, you indicated your concern over the redirection of FTE funding to implement model state drug laws and develop public service announcements (PSA's). What is the current level of funding support for PSA's and what is their role in the National Drug Control Strategy?

Answer

Last year, ONDCP produced and distributed 21 PSAs. The PSAs featured adult and child movie and sports stars urging youth to "Stay Drug Free!! You Have the Power!" Celebrities who participated in this effort include football stars Dan Marino and Jerry Rice, basketball stand-out Juwan Howard, Georgetown University basketball coach John Thompson, television veteran Lynda Carter, Bobbie Phillips of "Murder One", Michelle Williams of "Species", CBS Daytime stars, and child celebrities from NBC, Nickelodeon, and PBS "Sesame Street" among others. The role of PSAs to implement the Strategy is to support and communicate ONDCP's major goals and objectives and to serve as a tool to accomplish prevention initiatives. This effort cost $30,000.

The major television networks are now featuring Olympic gold-medalists Michael Johnson and Dominique Dawes in PSAs produced by ONDCP. In these spots, Johnson and Dawes tell the audience why they don't use drugs, and urge children to stay away from drugs and work toward excellence. Director McCaffrey concludes with "Champions in any field stay drug free. Need help? Call this number - Federal government drug treatment help toll-free phone number."

These spots, and spots with Johnson alone, have been aired regularly during prime time. For example, Michael Johnson spots have been aired during NBC's Sports Illustrated Olympic Special, and ABC's "Nightline" and "Lois and Clark." Michael Johnson spots have also run during ESPN's morning sports report and NBC's "Real Life." *The Washington Post* also made reference to the Michael Johnson ads.

In addition, Director McCaffrey enlisted Montel Williams' editing and production expertise to develop PSAs that encourage those addicted to drugs to get help by using the Federal government's drug treatment help toll-free phone number. These spots point out that drugs

destroy people mentally, physically, and morally. The spots run regularly on over 150 stations carrying the Montel Williams Show, and other networks and independent stations.

In contrast to the millions of dollars usually spent on national advertising campaigns, ONDCP maximized its budgetary effectiveness and spent $26,000 to conceptualize, write, direct, edit, dub, and distribute the PSAs in 1996. The Olympic gold-medalists' PSAs are scheduled to run until the end of the year.

Question

4. As you may know, the 104th Congress has expressed strong support for providing assistance to youth at risk. Anti-drug and crime prevention programs have received particular attention. Could you please outline the efforts being made at ONDCP to assist youth at risk.

Answer

ONDCP's five strategic goals ensure that our message is unambiguous and that our commitment is clear. The first goal is, "Motivate America's youth to reject illegal drugs and substance abuse." This will be accomplished by: 1) increasing the number of state governments and community organizations participating in the development of a national prevention infrastructure; 2) increasing the number of schools with comprehensive drug prevention and early intervention strategies focusing on family involvement and re-invigorating the parent movement; 3) increasing, through public education, the public's awareness of the risks and consequences of alcohol, tobacco and other drug use by individuals under twenty-one; and 4) reversing the upward trend in marijuana use among young people and increasing the average age of first time use.

Additionally, ONDCP has made its concerns known about the damage done to the national prevention infrastructure by the recent cutbacks in funding for CSAP's high risk youth, community partnerships, and pregnant, postpartum women's program funding.

QUESTIONS SUBMITTED BY SENATOR KERREY

$92 billion has been expended on drug control activities since the Office of National Drug Control Policy was established in early 1989. You are requesting an additional $15.1 billion for FY 97. Casual drug use has declined during this period, but the number of hard-core drug users remained at 2.7 million; youth drug use rose; and while violent crime in this country declined, juvenile crime actually rose. You have made statements that we lack a consistent long-term budget and focus to control drugs. Yet, it seems to me that the budget for drug control has been fairly consistent, it has risen on an annual basis since ONDCP was created. In addition, the office's authorizing statute requires that the annual strategy shall "include comprehensive, research-based, long-range goals for reducing drug abuse in the United States."

Question

1.a. Do you believe that despite the law, previous strategies lacked long-range goals?

Answer

No. Every previous Strategy contained long-range goals and supporting objectives. Goals, however, tended to be narrow rather than comprehensive. For example, the goals of the 1989-1993 strategies focused on measuring reduction in casual drug use and excluded hardcore drug

use. In President Clinton's first Administration goals were broadened to encompass all drug use and consequences. The 1996 *National Drug Control Strategy* consolidated the fourteen goals of the 1995 Strategy into five goals and 23 objectives, which guide our integrated systems approach.

Question

1.b. Second, are you telling us that all of the funding and strategies attempted in the past were flawed?

Answer

No, previous funding and strategies were not flawed. They clearly were building blocks for where we are today. The drug situation is fluid and ever-changing, and our responses to this threat evolve as the challenge changes and as we learn. We now understand that if this problem is to be successfully addressed we need dedicated funding extending over five to ten years to support the programs and policies that are generated by a ten-year strategy.

Question

2.a. The number of hard-core drug users is still at 2.7 million, where it has been since 1989. Last year Director Brown stated that no strategy had ever adequately addressed hard-core users because funding for certain initiatives was not provided. I told him when he came back next year that I hoped I wouldn't hear the same thing. Well, he's not here this year. So, General McCaffrey, I will ask you, what can be done to reduce the number of hard-core users who are responsible for the majority of the drug demand and violent crime?

Answer

It is clear that one of the major drug challenges facing our nation is protecting our citizens from drug-related crime and violence. Such violence is rampant in many areas of the country, with gang violence literally destroying entire neighborhoods. The drug-related violence is committed by a small portion of drug users. Hardcore drug users, while a minority of the total drug-using population, account for most of the demand for illicit drugs and commit a disproportionate number of crimes to support their drug habits. Reducing the number of hardcore drug users through linked treatment and enforcement programs can substantially reduce drug-related crime and violence. So too can efforts directed against open air drug markets and drug trafficking organizations. We must help our local authorities reclaim their streets and neighborhoods from drug dealers.

Drug treatment can reduce crime, but it must also be linked effectively with criminal justice services. Hardcore addicts must be held accountable by the criminal justice system for their illegal behavior and they must receive support from the treatment system to change their behavior and end their drug use. Effective linkage between criminal justice and treatment systems also empowers judges to use a valuable range of treatment and punishment options. The passage of P.L. 103-322, the Violent Crime Control and Law Enforcement Act of 1994, helped foster the coordination of the treatment and criminal justice systems, supporting drug courts and other nonviolent offender management programs at the State and local level.

For those hardcore users who have perpetrated serious crimes, treatment must commence with and continue through the term of incarceration. Rehabilitation of a drug offender is a long-term process, it is a logical investment because most drug offenders will eventually be returned to our communities. Effective correctional treatment includes accurate initial assessment of rehabilitative needs, appropriate programming within the correctional walls, and, most importantly, extensive transitional supervision and support as the offender is gradually reintegrated into the community.

Prison-based drug treatment has been shown to be an effective means of controlling drug use and recidivism to criminal behavior. Intensive treatment programs such as therapeutic communities (TCs) and aftercare are especially effective for serious offenders who are serving long-term jail and prison sentences. It is clear that treatment works, even for the hardcore users. But unless adequate funding for treatment is available, our progress will be slow.

Question

2.b. Can you tell us specifically how you intend to implement a systems approach which will reverse previous drug strategy failures?

Answer

There are two indispensable keys to a systems approach to the problem of illegal drug trafficking and drug abuse: strategy and budget. We need a sound, balanced ten-year strategy with annual reviews that measure the success of its implementation and adjust plans as required by new development. Short-term cyclical approaches to the drug problem lead to disappointing results, as well as to interagency competition for resources instead of cooperation and skepticism toward new initiatives.

Reducing the number of hard-core users may be the toughest challenge we face. Prevention is easier than rehabilitation. The hard-core drug use problem requires a systemic, pragmatic approach to demand reduction. In addition to the practical challenges of making programs work, we face the very real challenge of changing people's values.

Our primary target must be our youth and, especially, our at-risk youth. We need to educate them consistently and convincingly--as well as providing counterdrug educational support to their parents, teachers, coaches and other mentors. Demand reduction is the primary challenge, although demand reduction efforts must be part of a total system of counter measures. The key to demand reduction is preventing young people from trying drugs in the first place. The measures we take to reduce illegal drug use are interactive: if we lower the number of young people who try illegal drugs, we facilitate our efforts in the areas of supply reduction, treatment requirements, law enforcement, and reduce the overall financial and human toll illegal drugs take on our society.

Question

2.c. What do you believe is the long-term answer?

Answer

The long-term answer is realism, consistency, and a holistic approach that considers not only our national problem with illegal drugs in isolation, but the interrelationship between drug abuse and other problem areas, such as enduring poverty, educational challenges, social issues, and changing values. The best interdiction effort loses its value if it only opens the market to domestically-produced "designer" drugs. Excellent rehabilitation programs can appear as failures if they have no choice but to put ex-addicts back out on the streets without training, a job, or hope of a better future. Increasing the number of law enforcement officers must be balanced with increases in prosecutors, judges, and prison space.

We must also learn to look ahead, to anticipate threats instead of reacting to them. The best investment in this regard is pervasive counterdrug education of our young people. A range of studies consistently demonstrate that the longer a young person resists illegal drug use, the less likely he or she is to become a chronic abuser. The current drop in the age of initial use is the most worrisome trend we see, and we must reverse it. Young people must learn the truth about the dangers of drug abuse, and we are not doing an adequate job in this regard. While pro-drug-

use messages or simply lax attitudes toward drug abuse weave through popular music, films and videos, counterdrug forces have found it difficult to compete. We are not winning the information contest.

We can never turn back the clock on history; however, a healthy resurgence of traditional institutions, such as disciplined schools, neighborhood religious congregations, and voluntary citizens' organizations is on the horizon. Government needs to find more constructive ways of supporting grass roots organizations that have greater local awareness and substantial local trust. Above all, measures that help strengthen or rebuild families are invaluable. Parents are the ultimate educators and the child's primary examples. In this respect, we also must do a better job of educating adults on the dangers of drug abuse so that they can encourage their children to make sound decisions.

Treatment works, but not all treatment programs work equally well. ONDCP will sort through the competing claims to insure that our resources are employed efficiently. Over the longer term, investment in and support of medical solutions or treatment abettors looks promising. Drug courts, if properly managed, are a winner, but must be employed within an overarching rehabilitation structure. As stated above, we must take a level-headed systems approach that balances needs, resources and proven results.

On the enforcement side, we are currently making great strides. Cooperation between Federal agencies, and between Federal, State and local entities, occurs with unprecedented candor, utility and frequency. There is still a long way to go, but this is a definite bright spot. Current upward trends are a complex phenomenon and too often mask the increasing sophistication and efficiency of domestic law enforcement. The High Intensity Drug Trafficking Area (HIDTA) program has been crucial in fostering this new spirit of cooperation. Overall, HIDTA has been a remarkable success and it is one program that deserves continued support.

Internationally, our progress has been slower, but here too we are headed in the right direction. Secretary Christopher's recent remarks on the transnational nature of many of the most pressing threats to the United States reflect a new awareness of the need for innovative solutions. While we may be hampered by traditional limitations, such as sovereignty issues, there is also a growing sense in the international community that cooperation between nations on issues such as terrorism, international crime and drug trafficking is essential to the maintenance of true sovereignty.

Intelligence is an essential component of our effort to halt the activities of international drug traffickers. Counterdrug intelligence is harder to do than strategic or military intelligence. The targets are smaller, the organizations more flexible--and often better-funded--than traditional state-structured enemies. Drug traffickers are also more ruthless; they respect no laws or treaties. The intelligence challenge runs the gamut from satellite communications to clandestine cells of human conspirators. Because of the transnational nature of the drug trafficking threat, there are also legal obstacles to effective intelligence work. ONDCP and other concerned agencies are currently studying this problem and intend to propose lasting structural solutions.

Finally, we must better protect our borders. Drug traffickers exploit the flow of legitimate travelers and illegal immigrants, burgeoning trade, and the difficulties sovereign states have in executing law enforcement missions across borders. For decades, our borders have been under-staffed and under-funded. Meanwhile, digital technology and increased trade have altered the traditional meaning of international borders in some spheres. Our Southwest border in particular suffers from rising lawlessness. We have already taken some near-term steps to improve conditions along the border, but the larger solution demands a long-term view of improving law enforcement and legal cooperation with Mexico.

Question

3.a. Youth drug use is on the rise, this is the indication from each of the recent Household Surveys and Pulse Checks. I believe you have stated that we do not really know what factors are contributing to the rise in youth drug use. I commend you for being honest. But I have difficulty understanding why, after expending some $92 billion on drug control efforts and we don't have better information on which to attack the problem. Why don't we have this information? How do you intend to secure it?

Answer

The issue of drug use is complex. There are no easy answers to why one person may choose to use drugs and another not to, or why one user may progress or progress more quickly to more serious, polydrug, addicted use than another. This is not because we do not have needed information or have not used the funds properly. Human behavior is too complex for a full understanding, and it is not amenable to scientific analysis. This does not mean we do not know what needs to be done, only that many factors are involved and that drug use and other human risk components are complex.

To know what to do requires a comprehensive picture of drug use and its consequences, drug production, and drug trafficking. The proper formulation of any national policy must be based on wide-ranging, interdisciplinary data collection and evaluation. At present, there are numerous research-based data sets containing information relevant to the development and evaluation of drug policy. Included in these are the full range of studies and surveys done by the Federal government, as well as a number of special studies done by State and local governments, foundations, the private sector, and institutes of higher education. These studies and surveys contain a wealth of valuable information, but the bulk of the analyses that flow from them do not relate to or act to serve Federal policy development. Rather, these analyses are more oriented towards scientific research, long-term evaluation, and gathering information about drug use in making operational decisions related to service delivery.

ONDCP is the only Federal agency that has sought to address the need for policy-oriented research. Through our Data and Evaluation Subcommittee of the Research, Data, and Evaluation Committee, and direct contact with the various agencies that are conducting research, we have worked to coordinate and improve the scope, quality, and coverage of the various drug-related data sets. Our intention is to better integrate information to support the strategic and budgetary processes and drive the research agenda in directions that support and illuminate the Administration's drug control objectives.

Question

3.b. How do you intend to attack the youth drug problem?

Answer

Goal #1 of the *National Drug Control Strategy* is "Motivate America's youth to reject illegal drugs and substance abuse." To do this we must work hard to increase the number of State governments and community organizations participating in the development of national prevention standards and a national prevention infrastructure. More schools must have effective and comprehensive drug prevention and early intervention strategies and these must focus on family involvement. We need to increase the number of community drug coalitions and increase, through public education, the public's awareness of the consequences of illicit drug use and the use of alcohol and tobacco by underage populations. We must continue to work hard to reverse the upward trend in marijuana use among young people and raise the average age of initial users of all illicit drugs. This goal targets the increased prevalence of drug use and substance abuse by

our youth and directly confronts teen tolerance of drug use, teen use of marijuana and other illicit drugs, and the illegal use of licit substances by minors, e.g., alcohol, tobacco, and inhalants.

Question

3.c. Do you have a long-term goal in mind for dealing with this problem?

Answer

Our long term goal is to motivate America's youth to reject illegal drugs and substance abuse. Measures of effectiveness and indicators of progress are now being developed.

Question

4.a. Do you have any statistics that demonstrate that Mexican production of methamphetamine is declining?

Answer

No statistics are available. However, although reports indicate that Mexican methamphetamine producers may be producing less methamphetamine, they appear to be replacing it with amphetamine production. Amphetamine is closely related to methamphetamine both chemically and pharmacologically. Amphetamine and methamphetamine both produce central nervous system stimulation, increased energy and alertness, and decreased appetite. The reason for the shift is increased controls on ephedrine and pseudoephedrine, the primary precursors for methamphetamine production. Also, attempts by methamphetamine producers to produce ephedrine from molasses failed because of the difficulty and sophisticated equipment needed to convert the molasses.

As a result of these increased controls there appears to be increased trafficking and diversion of phenylpropanolamine (PPA). PPA is closely related to ephedrine and pseudoephedrine and has been used as the precursor of choice to clandestinely synthesize amphetamine. According to DEA, PPA is a List I chemical in the U.S. and is also controlled by the organization of American States Model Chemical Legislation. However, the sale of PPA, unlike ephedrine and pseudoephedrine, is not controlled by any country. Several ton quantities of PPA have been seized in Mexico on several occasions since March 1996.

Question

4.b. Are there any programs currently in place for small Midwest cities that will provide drug education and prevention?

Answer

The short answer is "yes;" there are many effective education and prevention programs in the Midwest. Specifically, Nebraska has developed an effective comprehensive prevention service system which includes a Statewide Prevention Resource Center, seven regional prevention centers, local prevention providers and high risk prevention programs. The Panhandle Substance Abuse Council, Inc., is a model program that exemplifies a collaborative effort that is often talked about but seldom realized; the School Community Intervention Program, which annually impacts more than 50,000 youth in Nebraska; and Communities of Hope, which provides training and implementation of alcohol, tobacco, and other drug prevention programming efforts in faith communities across the state.

Question

4.c. Are you aware of the data from the Drug Abuse Warning Network (DAWN) and the Treatment Episode Data Set (TEDS) reporting a tremendous increase in the number of methamphetamine-related deaths and methamphetamine-related emergency visits to hospitals in the last three years? What has your office done with this data? Have any recommendations been made in to begin treating this problem?

Answer

ONDCP is well aware of the emerging methamphetamine problem. One of the key sources of information about this trend is our *Pulse Check Report*. To more effectively address the emerging methamphetamine problem, a comprehensive methamphetamine strategy encompassing law enforcement, prevention, and treatment has been developed. This project, begun at the request of the President, brings ONDCP, the Department of Justice, the Department of Health and Human Services, and other concerned Federal agencies together to lay the ground work for a response to the serious threat posed by methamphetamine use and trafficking. In conjunction with this effort, the Substance Abuse Mental Health Administration's (SAMSHA) Center for Substance Abuse Prevention (CSAP) and the National Institute on Drug Abuse (NIDA) will be developing a methamphetamine information awareness and prevention initiative.

In addition, new initiatives like the DEA's Mobile Enforcement Teams (METs) have been highly successful in targeting the violent organizations that manufacture and distribute methamphetamine and other emerging drugs. The MET initiative, a Federal tool for assisting local law enforcement, sends out teams of 10 to 12 DEA Agents, fully equipped to aid local police. A MET deployment to Arlington, Texas, begun in May 1995, culminated in the arrest of 10 major suppliers of methamphetamine. Twenty-four pounds of the drug were seized, along with $300,000 in cash.

Question

4.d. Would you support the creation of a Midwest HIDTA to confront the rising methamphetamine problem this area faces?

Answer

ONDCP supports the creation of a Midwest HIDTA if the criteria of the Anti-Drug Abuse Act of 1988, (P.L. 100-690) as amended, are met.

Question

5.a. Mexico continues to be the number one transit point for cocaine entering the United States. While the State Department has given the country a national interest waiver, and points out the many achievements on the part of the Mexican government to deal with drug traffickers, I can't help but believe that until the economy in Mexico improves dramatically we will not see any real decline in the use of this corridor for drug trafficking into the United States. We are beefing up the Border Patrol and the Customs Service. But, those are U.S. enforcement actions in response to the problem. Realistically, with all of the support we are and have provided Mexico, can we expect to see any real commitment on its part in the next year or so to ebb the tide of drugs coming into this country from Mexico?

Answer

We have already seen commitment from the Mexican government.

- At the urging of the Zedillo government, Mexico has enacted new, far reaching, money laundering laws and has worked with a team from the United States to put in place the infrastructure that will make it possible to implement those laws.

- The Mexican Congress passed an anti-crime package which we expect will be approved by the States shortly, that will give Mexican law enforcement new powers, e.g., broader wiretap authority and witness protection to ease the job of capturing criminals.

- On the military side, for the first time President Zedillo ordered his armed forces to take on a major role in the counter-drug strategy. We are assisting by providing training and helicopters which will give the Mexican military the air mobility it needs to bring specially trained troops quickly into an area so that drug suspects can be arrested.

- We recently formed bilateral law enforcement task forces to work together against major traffickers in the border area.

- At some domestic political cost, Mexico recently extradited a Mexican citizen to stand trial in the United States, and we are working closely to identify additional cases which qualify for extradition under Mexican law.

- Mexican law enforcement has in the last year captured Gulf Cartel kingpin Juan Garcia Abrego, arrested major lieutenants, expelled a major Bolivian trafficker through the United States where he was arrested and charged, and on August 6 arrested Pedro Lupercio Serratos and his brother Oscar Gerardo Lupercio Serratos, leading traffickers in the Guadalajara area with reported ties to Colombian cocaine suppliers, Tijuana kingpins, the Arellano Felix brothers, and Juarez cartel leader Amado Carillo Fuentes.

It is in Mexico's interest to stem the tide of drugs that enter the United States through Mexico. The Government of Mexico realizes that relations with the United States will be directly impacted by how successful Mexico is in stopping the narcotics flow. Perhaps more importantly, they realize that if Mexico is to enter into the ranks of developed countries it is essential to control the lawlessness and culture of corruption that accompanies large scale drug trafficking.

Question

5.b. You have said that we have a lot of "good notions" on the table with Mexico. What can you share with us to give us some assurance that these "notions" in fact, will have an impact?

Answer

We are just beginning our cooperative efforts with Mexico. However, the "notions" we are putting in practice, such as working closely with special police units, derive from a model that we used in Colombia which contributed greatly to the arrest of cocaine kingpins there.

Mexican eradication efforts have been outstanding. Last year, that country eradicated more acreage of drug crops (marijuana and opium poppy) than any other in the world. Their government and military want to do more, and are exploring more efficient techniques using better equipment.

Mexico adopted legislation to improve its capacity to control money laundering. It is progressing reasonably well toward implementing the new laws. While stronger legislation is necessary we believe that the government is acting in good faith and is moving in the right direction.

Question

5.c. What makes you think that in 5 to 10 years Mexico will no longer be a cocaine transit route?

Answer

We know that traffickers look for the path of least resistance in bringing their product into the United States. By concentrating efforts on Mexico over the next few years we will increase the difficulty and uncertainty experienced by traffickers who bring their drugs to the United States through Mexico, causing them to look for other routes.

We have observed how traffickers change their patterns in response to U.S.-supported counter-drug efforts. Until recently, traffickers preferred to ship by air. We believe it was because air shipments gave the drug owners more direct control and was faster than shipment by land or sea. As we devoted more effort to controlling air smuggling we have seen a trend toward greater reliance on maritime transportation. We expect that as we make life comparatively difficult and uncertain for traffickers in Mexico they will switch to other routes to bring drugs to the U.S.

Question

6. Why is it that no matter what we do with respect to interdiction, we only seize or stop 1/3 of the drugs coming into this country?

Answer

Interdiction is an important part of the systems approach to fighting drugs that also includes education, treatment, domestic law enforcement, and international cooperation. The President's *National Drug Control Strategy* stresses the need for interdiction programs in Goal #4, "Shield America's air, land, and sea frontiers from the drug threat." The Strategy is supported by a $15.1 billion FY 97 budget request, $1.437 billion of which will specifically support interdiction.

Traffickers have the capability to quickly react to the successes of interdiction forces. When pressure is placed on them in one geographic area or mode of transportation, they quickly shift transportation modes of operation or location to avoid interdiction.

Our strategy is to determine where the traffickers are most vulnerable, and apply pressure there. The change in the situation in the transit zone is an example. It is significantly different than it was in the early 90's. Successful efforts against air smuggling have forced traffickers to seek alternate means of transportation. Traffickers are no longer making numerous, easily detected flights into Florida. The air-to-surface mode ratio has shifted to maritime, an environment where targets are more numerous, harder to sort, tougher to monitor undetected, and especially hard to detect when hidden in bulk commercial cargo. Traffickers are now applying technology to reduce their vulnerability, i.e., using commercially available accurate Global Positioning System which substantially reduces their need to communicate when coordinating a rendezvous.

Once we are successful in a particular area, or against a particular mode of transport, we still cannot abandon those efforts. If a sufficiently robust capability is not left in place as a deterrent, the traffickers will merely return to their old, and cheaper, modes and routes. What we do need to do is improve the effectiveness of interdiction systems by leveraging technology, maintaining flexibility of deployment, and obtaining more and better actionable intelligence.

The large number of transportation routes, technologies, and methods make substantial increases in interdiction seizures difficult to achieve. The shift in emphasis to source country interdiction was, at least in part, based on this premise.

The shift in emphasis to source country programs attempts to disrupt the flow of drugs where it can be detected and disrupted more easily. Fewer targets emanating closer to known points of origin make detection and monitoring easier, targets are more easily identifiable, and a smaller geographic area needs to be covered. Additionally, with the cooperation of the host nations, specific trafficking organizations can be identified and targeted.

Interdiction alone will not solve the Nation's drug control problems. However, it is an essential component of the *National Drug Control Policy* and serves as an effective deterrent to increased trafficking.

Question

7.a. Given your expertise and involvement from SouthCom with the Colombians, do you believe we should alter our existing source-country strategy with respect to this nation, or do you believe we should stay the course and continue to provide training, support, etc.?

Answer

We should continue cooperating with Colombia in specific areas of drug control. In spite of the lack of political will of the Samper Administration, the efforts of Colombian law enforcement and military entities to combat the destructive effects of Colombian traffickers continue to yield positive results. Most recently, a joint operation by the Colombian National Police and military forces in the San Jose Guaviare Department has disrupted illicit drug production in a region that accounts for much of the cocaine produced in Colombia.

Question

7.b. If Colombia is in decertified status, why is the U.S. continuing to provide drug control program support?

Answer

Decertification of Colombia pursuant to Section 490(e) of the Foreign Assistance Act (FAA) does not suspend all forms of legally permissible foreign assistance that may be provided to that country. For example, the provision of excess defense articles for counternarcotics purposes under Section 517 of the FAA assistance is not affected by the operation of Section 490(e).

In addition, we should not allow our deep concern for narcotrafficking and the corruption it fosters in Colombia to distract us in our efforts to support the courageous and patriotic efforts of the Colombian National Police, elements of the military, and other dedicated Colombians. We should continue to support Colombia in specific areas of drug control as long as these people are able to mount effective programs to help protect the Colombian people from the scourge of narcotrafficking.

Question

7.c. What assistance, if any, has been terminated or scaled back as a result of the decertification?

Answer

According to the Department of State, the agency responsible for administration of all foreign assistance programs, no new monies have been transferred to the Colombia Foreign Military Financing (FMF) Trust Account since 1 March. Export-Import Bank financing has been stopped, and the U.S. must vote against Colombia at International Financial Institutions. The U.S. also voted against Colombia on a proposal before the International Development Bank.

Question

8. Heroin is an increasing problem in the United States. Is there anything that can be done on an international level to effectively reduce the trafficking of heroin from Burma?

Answer

International heroin trade is an increasingly grave threat to America. Opium and heroin production have soared in recent years, and we are faced with increased availability, lower prices, and higher purities. A fundamental goal of our international effortsis to reduce the availability of heroin. Our strategy for moving toward that goal is shaped by the broad geographic scope of the heroin trade touching virtually every continent; the political and geographic inaccessibility of the major producing regions; and the fact that U.S. consumption, though serious and growing, represents only a small portion of global production. The result is a regional approach that focuses our national efforts on sources of heroin that represent the most serious threat to America, with Burma at the top of the list. Given the significant restrictions on their ability to work against heroin trafficking from within Burma, U.S. counterdrug agencies have and will continue to work actively with countries in the region to reduce the heroin flow through Southeast Asia.

These agencies work with governments of key heroin transit countries to identify and disrupt transportation networks, intercept drug shipments destined for the U.S., and assist transit countries to improve law enforcement and intelligence capabilities to fight drug trafficking organizations. Currently our most successful partnership is with Thailand. International law enforcement is brought to bear against principal heroin trafficking organizations through coordinated regional initiatives, seeking extradition to the U.S. for prosecution when possible. This can include money laundering and control of precursor chemicals associated with heroin production.

The Presidential Decision Directive (PDD) on International Heroin control, signed in November 1995, clearly stated that the U.S. would employ a range of measures with Burma designed to address our counternarcotics concerns without undermining other vital U.S. objectives, including efforts to promote political reform and curb human rights violations. Actions outlined in the PDD were to move forward unless there was a deterioration in the human rights situation in Burma. Due to the changes in the political situation in Burma since November 1995, and the Congressionally mandated restrictions included in the FY 97 Foreign Appropriations bill, direct engagement with Burma on counternarcotics is no longer possible. Our strategy is to work with the governments of key heroin transit countries to identify and disrupt transportation networks, as well as intercept drug shipments destined for the U.S. Focused intelligence collection and analysis supports cooperative efforts among U.S. counterdrug agencies in identifying structure, operations, networks and vulnerabilities of specific trafficking groups for operational and enforcement targeting.

The U.S. government will seek assistance from other countries and international organizations with influence in Burma to help promote anti-drug programs, democracy and human rights. We will also seek to influence Burma through its neighbors with whom it has social and economic links and other inter-dependent relationships.

Question

9. If the most effective spending on interdiction is trying to stop traffickers once they reach our borders, then why is the Administration requesting increases for both the Border Patrol and Customs Service to enhance inspections and investigations at the border?

Answer

As much as 70 percent of the cocaine coming into the United States enters the country through Mexico. FY 95 Customs Service drug seizures along the Southwest Border showed a dramatic increase over FY 94, up over 20 percent in both number of seizures and total amount of drugs seized. Such seizures have caused smugglers to look for other trafficking routes and methods. Over the past several years, drug shipments have been discovered all along the Southwest Border being smuggled in by: passenger vehicles, commercial cargo and conveyances, and pedestrians at the ports of entry; four-wheel drive vehicles and backpackers in between the ports of entry; and private aircraft flying over the border. In addition to these more conventional smuggling routes, we discovered three subterranean tunnels used to smuggle drugs and illegal aliens under the border.

The Administration's FY 97 budget request includes funds to provide new positions for inspectors, special agents, canine enforcement officers and investigative and support personnel on the Southwest Border, as well as for the acquisition of additional technology for non-intrusive inspection of trucks, portable computer terminals and improved security for seizure storage vaults. Border Patrol efforts along the Southwest Border greatly enhance those of Customs, but better coverage is needed. In conjunction with the June 1996 El Paso Border Conference, we visited Eagle Pass, Texas and met with residents of the area who let us know just how uncertain they are about the security of the Southwest Border.

Question

10.a. If intelligence is the most cost effective tool, what is that you plan to do differently to increase the use of intelligence and sharing of information from informants and agencies to interdict drugs before they get to the borders?

Answer

Over the past year, law enforcement efforts along the Southwest Border have been significantly increased. Along with this expansion of operational efforts has come an increased focus on enhancing the quantity and quality of intelligence information available.

- Law enforcement agencies, particularly DEA, FBI and Customs, have expanded their investigative and intelligence collection efforts along the Border, focusing particularly on the major Mexican drug trafficking groups and their transportation cells.

- The El Paso Intelligence Center (EPIC), which serves as the principal tactical intelligence center along the border, has also expanded its efforts to support both the interdiction forces (Customs and Border Patrol) and the investigators (DEA, FBI, Customs).

- Efforts by our foreign intelligence organizations are also being enhanced so as to have a better understanding of the overall drug trafficking in and through Mexico.

In addition we will be reviewing our intelligence programs to ensure that they are providing the best possible support.

Question

10.b. If intelligence is more economical than steaming or flight hours, why are you requesting increases in the DOD budget for additional aircraft for Customs and increased flight hours for DOD in support of source-country interdiction?

Answer

History shows we get the best payoff by allocating our surveillance and tracking resources (aircraft and ships) in those areas where intelligence indicates traffickers are more likely to be flying or operating their boats. In some instances the intelligence can be very precise as to when and where trafficker aircraft or boats might be. In other cases, general areas and times might be known. In either scenario, "intelligence queuing" is much more effective, particularly in the transit zone.

The increase in DoD and Customs flight hours is part of the overall shift of emphasis from the transit zone to the source countries. The increase of two P-3s (Customs) and additional DOD flight hours will significantly enhance our ability to support source country governments' efforts to reduce the amount of cocaine base being moved from Peru to Colombia. As in the transit zone. intelligence plays a key role in identifying the best times and locations for aerial surveillance.

Question

10.c. Customs continues to believe that ROTHR will not benefit law enforcement needs on the border to provide real time radar tracking information because ROTHR cannot provide altitude information on targets as can the aerostats. This being the case, why do you believe ROTHR will provide more economical and effective intelligence tools for drug interdiction?

Answer

We believe that ROTHR, along with ground based radars, aerostats, and AWACS, is an effective and important component of our detection and monitoring surveillance, but ROTHR is not an intelligence system. ROTHR provides a relatively inexpensive capability to surveil at long distancelarge areas of open water and air space with a growing degree of reliability. By itself, ROTHR is not effective in supporting actual air interdiction efforts carried out by the Customs Service or other law enforcement agencies. Successful interdictions require the support or other assets with more precise radars and surveillance equipment.

Question

11.a. How active has ONDCP been in getting the pharmacology industry involved in the quest for new drugs to aid in the treatment of addictive drugs such as cocaine, heroin, and other problem drugs?

Answer

Over the past two years, ONDCP has worked actively and extensively with NIDA, especially the Medications Development Division, to address the issue of enhanced participation of the pharmaceutical industry in the development of anti-addiction medications. There have been disincentives or barriers to the involvement of pharmaceuticals to develop medications. These barriers include low prestige; little money; research difficulties (i.e., poor compliance with study protocols by clients in treatment); health risks; and the stigma attached to this research for companies.

In the past several years, however, there have been smaller pharmaceutical companies, philosophically grounded in the improvement of the human condition, that have sought to work to overcome these barriers. They are working with Federal agencies like NIDA and ONDCP to develop anti-addiction medications especially for cocaine abuse.

Question

11.b. In light of the studies now underway at Columbia University and Johns Hopkins University, what incentives have been given to the pharmacology industry to assist these universities, and work on further studies in the development of replacement drugs for cocaine?

Answer

Since 1990 the following incentives have been established to reinforce the work of pharmaceutical companies to develop anti-addiction medications:

1. Establishment of the National Institute of Drug Abuse's (NIDA) Medications Development Division, 1990.
2. The Federal Food, Drug, and Cosmetic Act (FDCA) provides special incentives, such as accelerated approval through treatment INDs (investigational new drugs), and orphan exclusivity to manufacturers of new anti-addiction drugs.
3. Drug dependence is now considered a chronic, relapsing illness allowing for expedited review by FDA.
4. The User Fee Law passed in 1991 to expedite review and approval of new drugs.
5. More sites for clinical trials to determine the efficacy and long-term consequences of medications.
6. Cooperation of Federal agencies in the development and marketing of medications, i.e. LAAM (Levo-alpha acetyl methadol), 1993.
7. NIH-wide policy of "Reasonable Pricing" clause repealed, April 1995, which discouraged government and private sector collaboration to obtain proprietary materials and products to facilitate medication development.

Question

11.c. Has ONDCP done anything to help streamline DEA's regulations to get these drugs approved? Has anything been done to streamline State regulations toward approval? Does ONDCP have the machinery or plan to get this done?

Answer

Congress, upon recommendation from NIDA, funded The Institute of Medicine (IOM) to research current methadone regulations and publish a document containing necessary recommendations, with supporting rationale, to revise current regulations. The purpose, in addition to revising the current regulatory language, was to seek a means to make methadone more accessible to providers by removal of burdensome restrictions -- thereby increasing treatment capacity.

One critical recommendation was to reduce DEA's regulatory and oversight responsibility to facilitate the program application and monitoring process. ONDCP thinks the role of DEA is vital and its designated activities in this regard should not be limited.

Since completion of the IOM report almost two years ago, HHS' Interagency Narcotics Treatment Policy Review Board (INTPRB) has reviewed various means of implementing the revised regulations. Completion of the implementation of the revised regulations has been hindered by the agendas of various agencies represented on the committee.

In order to effectively implement revisions to the present regulations, it will be necessary to continue to involve the agencies that work on methadone medication: DEA, FDA, SAMSHA, NIDA and ONDCP. The INTPRB developed recommendations based on IOM report findings. Dr. Philip Lee assigned lead responsibility for implementing these recommendations to CSAT. The center is part of SAMSA and is active in implementing the recommendations.

ONDCP is working with NASADAD to facilitate the statutory approval process for States to use anti-addiction medication. This process usually works best when the pharmaceutical company works with Federal agencies to notify the States of pending approval of new medications.

Question

12.a. Medicare provides assistance for substance abuse treatment for up to two years. Have any studies been conducted which suggest that the two-year time frame is enough for recovery?

Answer

The laws and regulations regarding Medicare coverage do not limit substance abuse treatment to two years.

Many studies have been conducted regarding the appropriate time frame needed for recovery from drug addiction. Approximately twenty years ago, treatment was available in one of two ways: (1) residential treatment programs for up to two years; and (2) self-help programs such as Alcoholics Anonymous. Currently there are a broad variety of treatment options to respond to the specialized focus of addiction borne by the particular drug used and the needs of the individual. The benefits from treatment programs are typically found in reduced intravenous and other drug use, reduced criminality, and enhanced health and productivity.

Study findings indicate that a minimum of three months in treatment is required to observe an effect from treatment. There is no maximum endpoint. Post-treatment outcomes, associated with time in treatment, have been in evidence for as long as twelve years in some studies. Therefore, compliance with and completion of an effective treatment program, for as long as one or two continuous years, can have long-term therapeutic and post-treatment value.

Question

12.b. General, are any similar studies being conducted in the quest for pharmacological solutions to other types of addictive drugs?

Answer

The Medications Development Division (MDD) at NIDA, along with many of the major pharmacology companies, are currently engaged in drug identification and medications development to treat opiate and cocaine addiction for the 1.1 million cocaine addicts. There are more cocaine addicts then any other individual drug-user category. Therefore, MDD and other research groups have placed limited resource dollars anti-cocaine medication discovery.

Whereas there have always been medications on the market to provide symptomatic relief from the use of addicting drugs, there have been recent discoveries that specifically target the drug itself. For example, last year the addiction field saw the FDA approval of the reformulation of naltrexone for the clinical treatment and management of alcohol addiction. Naltrexone has been on the market for several years to treat withdrawal effects associated with opiate use. The clinical discovery of the use of Naltrexone (labeled as ReVia for chronic alcoholism and Trexan for use in opiate withdrawal) is a welcome addition to Antabuse -- which had been the only medication for the management of alcoholism to date. In the past several years, the FDA has also approved varying types of anti-nicotine medications.

Question

13. I am aware that there are many studies being conducted in the private sector which address various aspects of the drug problem. Some of these researchers have informed me that despite the rigorous standards their studies adhere to, their ideas are overlooked. Is this true? What is

being done to examine the research that is being conducted outside the government? How is that information incorporated into ONDCP policy?

Answer

We are aware of the numerous research-based data sets and studies that contain information relevant to the development and evaluation of drug policy. Included in these are the full range of studies and surveys done by the Federal government as well as a number of special studies done by State and local governments, foundations, the private sector, and institutes of higher education. These studies and surveys contain a wealth of valuable information and we are working through our consultation process with these various groups to bring this information into the policy development process.

ONDCP is also seeking to address the need for better access and use the information that is available through our Data and Evaluation Subcommittee of the Research, Data, and Evaluation Committee and direct contact with the various agencies that are conducting research. We have worked to coordinate and improve the scope, quality, and coverage of the various drug-related data sets. Our intention is to better integrate information to support the strategic and budgetary processes and drive the research agenda in directions that support and illuminate the Administration's drug control objectives. Included in this are efforts to better examine the research conducted outside of the government and to better link the various components of the research and development community.

Question

14.a. The fiscal year 97 request for HIDTA is the '96 funded level of $103 million. This is $7 million less than the requested '96 amount. Why didn't you request increased funding back to the '96 requested level?

14.b. The requested amount will not permit ONDCP to designate additional HIDTAs, is that correct?

Answer

The requested level of $103 million in our Congressional submission is the OMB approved level of funding for HIDTA in FY 97. The $103 million request would not permit ONDCP to designate additional HIDTAs.

Question

14.c. Can you tell us what specific requests have been made to ONDCP for such designations? Can you tell us if those requests meet the authorized criteria?

Answer

Requests for HIDTA designations have been received from the Tampa Bay area (Florida), the San Francisco/East Bay area (California), Denver (Colorado), the Washington State Cascade area, the Midwest States, and the Gulf Coast. Additionally, the Empowerment HIDTAs which are small programs focused solely on the Empowerment Zones of Chicago, Atlanta, and Philadelphia/Camden, have requested full HIDTA designations.

The statutory criteria are very broad and include the following:

"When considering the designation of an area under this subsection as a High Intensity Drug Trafficking Area, the Director shall consider, along with other criteria the Director may deem appropriate--

(A) The extent to which the area is a center of illegal drug production, manufacturing, importation, or distribution;

(B) The extent to which State and local law enforcement agencies have committed resources to respond to the drug trafficking problem in the area, thereby indicating a determination to respond aggressively to the problem;

(C) The extent to which drug-related activities in the area are having a harmful impact in other area of the country; and

(D) The extent to which a significant increase in allocation of Federal resources is necessary to respond adequately to drug-related activities in the area.

It is conceivable that each of the requests could meet the statutory requirements. However, each would not equally meet the standard definition of "gateway of drug trafficking" nor equally impact the surrounding states.

Question

14.d. Why not take action to designate additional HIDTAs if the justification warrants and reprogram funds from other drug control accounts, if additional funding to implement the new strategies is not available?

Answer

Whereas ONDCP would very much like to increase the HIDTA program, the current funding levels and programming plans do not permit such a reallocation within the FY 97 budget request. ONDCP intends to examine whether there is sufficient justification to warrant reprograming of drug funds from other drug control accounts in all program areas.

Question

14.e. Can you provide the Committee with an update on the achievements made to date on each of the HIDTAs?

Answer

Attached (Tab A) are fact sheets on each HIDTA. A year-end summary will be sent to the Committee under separate cover.

Miami HIDTA

Since its designation in 1990, the Miami HIDTA has successfully dismantled drug trafficking organizations and gangs, arrested career criminals and violent offenders, and made major inroads in dismantling the Cali Cartel. Phase 5 of Operation Cornerstone contributed to the arrest of the two most significant cocaine traffickers in the world—Miguel and Gilberto Rodriguez Orejuela—responsible for 80 percent of the world's cocaine supply. This 4-year investigation resulted in the seizure of 47,000 kilos of cocaine and 115 indictments and arrests, including the Orejuela brothers, 4 Cali Cartel heads, and 10 Cali Cartel attorneys.

The following are the major initiatives of the Miami HIDTA:

- *South Florida HIDTA Task Force.*—A 285-member, multi-agency, co-located task force representing 25 Federal, State, and local agencies focused on two initiatives: money laundering and drug gangs.

- *North Broward Drug Enforcement Unit.*—An 86-member multi-agency, co-located unit that focuses on illegal importation, sale and diversion of drugs, money laundering, and violent criminal activity in the North Broward area.

- *South Broward Drug Enforcement Unit.*—A 65-member coalition of Federal, State, county, and local law enforcement agencies combating drug trafficking, drug-related activities, and money laundering in southern Broward County.

- *South Florida Impact.*—A 44-member multi-agency task force from 12 Federal, State, and local agencies that identifies, investigates, and prosecutes drug traffickers and money launderers in the South Florida area.

- *Violent Crimes/Fugitive Task Force.*—A 32-member multiagency, co-located task force representing Federal, State, and local agencies that dismantle and seize the assets of money laundering organizations.

- *Southeast Florida Regional Task Force.*—This task force consists of one co-located task force and one co-located intelligence group that targets and infiltrates drug trafficking and money laundering organizations.

- *South Florida Investigative Support Center.*—A regional case support and intelligence center that conducts regional threat assessments and provides case support to operational units. The center consists of approximately 29 agencies: 55 full time and 24 part time. The Federal Bureau of Investigation's Joint Drug Intelligence Group, consisting of 38 full-time personnel, is located at the center.

- *Community Empowerment Program.*—This initiative, established in 11 communities in South Florida, is focused on eliminating drug trafficking organizations in targeted neighborhoods and assisting community residents to attain self-sufficiency so that their vulnerability to drug use is reduced. The program contains a focus on youth and is providing a way to measure the success of prevention initiatives.

- *Treatment Initiative.*—This initiative concentrates on developing and implementing an automated management information system to conduct intake and placement and track outcome measures related to drug treatment services.

- *HIDTA Training Center.*—This center offers a full calendar of training courses to serve all HIDTA regions and has facilities to produce videotapes and audiotapes. It also provides mobile training teams to bring courses to all HIDTA regions.

- *HIDTA Resource Assistance Center.*—The Miami HIDTA hosts the national center for processing state and local grants from all the HIDTA regions.

- *Gangs, Career Criminals, and Violent Offenders Task Force.*—A 41-member multiagency, co-located task force that targets violent gangs and fugitives.

- *Monroe HIDTA Task Force.*—A 7-member multiagency, co-located task force that dismantles smuggling and transportation organizations in Monroe County.

The agencies and organizations listed below participate on the Miami HIDTA Executive Committee. Numerous additional agencies participate at the task force level.

- Bureau of Alcohol, Tobacco, and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Service; Internal Revenue Service; U.S. Coast Guard; U.S. Customs Service; U.S. Marshals Service; U.S. Probation Office; and the United States Secret Service.

- Florida Department of Law Enforcement.

- Metro-Dade Police Department; Broward County Sheriff's Office; Miami Police Department; and the MCS Office.

The Miami HIDTA encompasses Dade, Broward, and Monroe Counties. The HIDTA received $12.7 million in Fiscal Year 1996.

Los Angeles HIDTA

The Los Angeles HIDTA, designated in 1990, operates five major drug task forces in an affluent four-county region of California where distributing illicit drugs is lucrative, where pursuing drug traffickers is increasingly complex, and where 90 percent of drug traffickers in certain districts are illegal aliens.

Operation Zorro II, the HIDTA's most recent success, dismantled two major, sophisticated Mexican-based cocaine trafficking organizations—the Gutierrez and the Alapizco organizations—involved in distributing multi-ton shipments of cocaine throughout the United States. As a result of the investigation, Mauricio Gutierrez, Rafael Alapizco, and more than 130 other members of the organizations were arrested as they transported 5,598 kilograms of cocaine, and $8 million in currency was seized.

The Los Angeles HIDTA has five major task forces involving approximately 250 agents and officers (a number that fluctuates). Transcending traditional boundaries of coordination, the drug task forces of the Los Angeles HIDTA are at the cutting edge of task force development. Not only are their efforts coordinated within task forces, all five major drug task forces coordinate and integrate their efforts among each other in a team-of-task-forces strategy. The task forces have developed numerous innovative approaches to law enforcement including those that protect the identity of frontline task force members. In Operation Zorro II, the Los Angeles drug task forces, led by the Southern California Drug Task Force, demonstrated the effectiveness of this kind of synchronization.

This approach to drug task force planning and mutual investigative support results in significantly higher levels of trust and confidence than does the ad hoc task force approach. Attaining levels of coordination not achieved anywhere else in the Nation, the Los Angeles HIDTA uses a Memorandum of Understanding (MOU) as the coordinating mechanism to outline the missions and responsibilities

- **Southern California Drug Task Force.**—As the cornerstone of the HIDTA, this Federally led task force is fully integrated and comprised of Federal, State, and local law enforcement officers who conduct long-term, complex investigations targeting major drug trafficking organizations operating at national and international levels.

- **Los Angeles Metropolitan Police Apprehension Crime Task Force (LA-IMPACT).**—This task force, among the largest of the co-located task forces in the Nation, targets, investigates, and prosecutes those who organize, direct, or engage in medium- to high-level drug trafficking, placing high priority on those who import drugs into Los Angeles County.

- **Inland Regional Narcotic Enforcement Team.**—This task force targets major drug dealers and money launderers operating in and traveling through Riverside and San Bernardino Counties (the Inland Empire region).

- **Regional Narcotics Suppression Program.**—This task force dismantles major drug trafficking and money laundering organizations operating in and through the Orange County/Southern California area.

- **Inland Crackdown Allied Task Force.**—This task force operates in Riverside County and targets major Colombian and Mexican cocaine cartels; its secondary mission is to interdict heroin and marijuana.

The following are the major Federal initiatives of the Los Angeles HIDTA:

- *Joint Drug Intelligence Group.*—An initiative that provides operational and strategic intelligence to participating law enforcement agencies;

- *United States Customs Service Initiative.*— An initiative that is co-located with the Southern California Drug Task Force and whose mission is to dismantle and disrupt drug money laundering cells and international drug trafficking organizations;

- *Internal Revenue Service Initiative.*—An initiative that is co-located with the Southern California Drug Task Force and whose mission is to centralize all Federal enforcement efforts on money laundering and exploit existing financial drug trafficking intelligence.

- *Immigration and Naturalization Service Initiative (or the Organized Crime Drug Enforcement Task Force Initiative).*—An initiative known as "Operation Bag and Tag" that identifies, arrests, prosecutes, and deports illegal aliens convicted of drug violations;

- *U.S. Marshals Service Initiative.*—An initiative co-located with the Southern California Drug Task Force, which pursues Federal, State, and local fugitives known to be associated with national and international drug trafficking.

The following are major State initiatives of the Los Angeles HIDTA:

- *Los Angeles County Regional Criminal Information Clearinghouse.*—This clearinghouse, working with Federal, State, and local partners, has developed a unified approach to establishing a regional war room/watch center and associated critical regional intelligence programs designed to provide information to all participating law enforcement agencies; and

- *The Los Angeles County District Attorney's Office Initiative.*—This initiative, which is co-located with the Southern California Drug Task Force and the LA-IMPACT Task Force, provides tactical, legal strategies and counsel pertaining to major drug-related investigations.

The following agencies and organizations participate in the Los Angeles HIDTA program:

- Bureau of Alcohol, Tobacco and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Services; Internal Revenue Service; Organized Crime Drug Enforcement Task Force; U.S. Customs Service; and the United States Marshals Service.

- Los Angeles Police Department; Los Angeles County Sheriff's Department; Regional Narcotics Suppression Program; California Department of Justice; Los Angeles County Police Chiefs Association; Orange County Sheriff's Department; San Bernardino County Sheriff's Department; San Bernardino County Police Chief's Association; Riverside County Sheriff's Department; and the Riverside County Law Enforcement Administrator's Association.

The Los Angeles HIDTA encompasses Los Angeles, Orange, Riverside, and San Bernardino Counties. The HIDTA received $12 million in Fiscal Year (FY) 1994, $11.5 million in FY 1995, and $11.5 million in FY 1996.

Houston HIDTA

The Houston HIDTA, designated in 1990, has nine major initiatives that include co-located task forces composed of all the major Federal, State, and local law enforcement agencies in Houston. Its central mission is to disrupt, dismantle, or destroy the most significant drug trafficking and money laundering organizations in the area.

Because of Houston's geographic proximity to Mexico, large population of illegal aliens, international trade status, and transportation infrastructure, drug trafficking has expanded over time, and the city has become a distribution point for illicit drugs, firearms, and money laundering.

Since its designation, the Houston HIDTA has dismantled major drug trafficking organizations, seized tons of illicit drugs and millions in currency, and dismantled the hierarchy of significant violent street gangs with major drug trafficking organization connections. These results have led to the sharing of millions of assets among Federal, State, and local law enforcement agencies.

The major initiatives of the Houston HIDTA are Major Drug Squads, Money Laundering Task Force, Violent Gang Task Force, Joint Drug Intelligence Group, Post Seizure Analysis Team, Texas Narcotics Information System, Targeted Offenders Squad, Narcotics Operation Control Center (NOCC), and the U.S. Attorney's Office Initiative.

- *Major Drug Squads.*—The mission of the Major Drug Squads is to neutralize the highest levels of drug trafficking organizations and to interdict their activities by seizing their assets. Each squad is fully integrated, having members and squad supervisors from different agencies.

- *Money Laundering Task Force.*—The 104-member multi-agency, co-located task force identifies money launderers and traces illegal drug proceeds, concentrating on four major areas: financial operations; long-term investigations; businesses that transmit money (i.e., *giros* houses); and assets removal.

- *Violent Gang Task Force.*—This 16-member, multi-agency, co-located task force identifies, investigates, and removes violent or habitual offenders from communities. Its highest priority is to target street gangs that maintain ongoing relationships with drug trafficking organizations.

- *Joint Drug Intelligence Group.*—This 48-member multi-agency, co-located task force provides accurate, relevant, and timely strategic and organizational drug intelligence to the Houston-area law enforcement community, enabling a more effective and efficient use of drug investigative resources. It develops and disseminates knowledge of criminal enterprises and focuses on criminal organizations representing Central American, South American, Mexican, African, and Asian groups and street gangs.

- *Post Seizure Analysis Team.*—PSAT's mission is to determine isolated seizures that are part of larger conspiracies or overt acts of ongoing investigations. This information is developed and ultimately turned over to a law enforcement agency for continued investigation and eventual prosecution.

- *Texas Narcotics Information System.*—This statewide information/intelligence system uses modern technology to provide analytical support using advanced analytical tools for the El Paso Intelligence Center, the Joint Drug Intelligence Center, all HIDTA initiatives, and law enforcement agencies throughout the country. TNIS enables Federal, State, and local law enforcement agencies to collect, process, disseminate, and share information directly affecting the successful prosecution of HIDTA cases.

- *Targeted Offenders Squad.*—TOS is a multi-agency squad that targets mid-level drug trafficking organizations for disruption and dissolution. The targets for investigation are developed by the Narcotics Intelligence Section in conjunction with the Joint Drug Intelligence Group. Targets are significant Houston-based drug trafficking organizations that require 6-month investigations to identify and dismantle.

- *Narcotics Operations Control Center.*—The NOCC is a focal point for deconflicting (eliminating conflicts) among drug law enforcement operational activities of nine Federal agencies; one State agency; and approximately 40 police departments, sheriffs' offices, and task forces investigating drug offenses in the Houston area.

- *U.S. Attorney's Office Initiative.*—This initiative provides prosecutorial support, as well as administrative support and direction, for the Houston HIDTA initiatives.

The following agencies participate in the Houston HIDTA:

- Bureau of Alcohol, Tobacco and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Service; Internal Revenue Service; U.S. Attorney's Office; United States Customs Service; U.S. Marshals Service; and the U.S. Secret Service.

- Texas Department of Banking; Texas Department of Public Safety; and the Texas National Guard.

- Harris County Sheriff's Department and the Houston Police Department.

The Houston HIDTA encompasses Galveston and Harris Counties. The HIDTA received $9.6 million in Fiscal Year 1996.

New York/New Jersey HIDTA

Designated in 1990, the New York/New Jersey HIDTA has a multi-agency task force approach to disrupting and dismantling drug-related money laundering and drug gang organizations. Located in an area with three major international airports and two major seaports, the New York/New Jersey HIDTA is based in the Nation's largest heroin market. As the financial capital of the world, this area represents one of the largest and most complex money laundering threats in the United States.

The following are the major initiatives of the New York/New Jersey HIDTA:

- *HIDTA Drug Gang Task Force.*—A 42-member multi-agency, co-located task force that conducts long-term investigations of nontraditional organized crime groups and joins the resources of several Federal and local agencies to investigate, prosecute, and dismantle drug distribution organizations primarily responsible for high levels of violent crime. The task force conducts intensive surveillance of drug organizations and street gangs, infiltrates targeted gangs, and assists in prosecuting drug offenders.

- *Violent Drug Gang Prosecution Initiative.*—A State prosecutorial effort operating in conjunction with the Drug Gang Task Force to dismantle major drug trafficking gangs.

- *El Dorado Task Force.*—A multi-agency task force, consisting of more than 20 Federal, State, and local law enforcement agencies, that coordinates the major money laundering investigations in the New York area. Since its inception, the task force has disrupted numerous money laundering and drug trafficking organizations and seized tons of cocaine and other dangerous drugs and millions of dollars in currency.

- *Westchester Highway Interdiction Program.*—A six-member multi-agency, co-located task force that interdicts illicit drugs and dismantles drug trafficking organizations.

- *Northern New Jersey Heroin Trafficking and Money Laundering Task Force.*—A multi-agency, fully integrated and co-located task force of more than 20 Federal, State, and local agencies, which dismantles core and secondary heroin trafficking organizations importing or distributing heroin in or through four New Jersey HIDTA counties that border New York City and the money laundering organizations that support them.

- *HIDTA Analysis Center.*—The multi-agency, co-located center providing analytical and computer-related support to HIDTA participants for dismantling significant drug gang and money laundering organizations. The center consists of a money laundering initiative, the New York Police Department drug gang tracking system, the U.S. Marshals Service Fugitive Investigative Group, and the New York City Police Department Regional Training Center.

The following agencies and organizations participate in the New York/New Jersey HIDTA:

- Bureau of Alcohol, Tobacco and Firearms; District Attorneys of New York City; Drug Enforcement Administration; Federal Bureau of Investigation; Federal Reserve Bank of New York; Immigration and Naturalization Service; Internal Revenue Service/CID; Securities and Exchange Commission; U.S. Attorney's Office; U.S. Customs Service; U.S. Marshals Service; U.S. Postal Service; and the U.S. Secret Service.

- Nassau County Police Department, New Jersey National Guard, New Jersey Division of Criminal Justice, New York City Police Department, New York National Guard, and the New York State Banking Department.

- Suffolk County Police Department and the Westchester Office of Criminal Justice Services.

The New York/New Jersey HIDTA encompasses Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk, and Westchester Counties in New York and Bergen, Essex, Hudson, Passaic, and Union Counties in New Jersey. The HIDTA received $9.7 million in Fiscal Year 1996.

Puerto Rico/U.S. Virgin Islands HIDTA

As one of the Nation's most recently designated HIDTAs (designated in 1994), the Puerto Rico/U.S. Virgin Islands HIDTA has successfully established operations for dismantling drug trafficking organizations, interdicting illicit drugs and weapons, identifying and seizing assets from money laundering activities, and investigating and prosecuting violent crime. Despite the newness of this HIDTA program, and the hurricane that devastated several islands in the Caribbean in 1995, it has made significant progress.

- Established a 101-member joint task force (Task Force I), secured a site for the program, and established an intelligence center.

- Established the following organizations within Task Force I: (1) the Major Organizations Investigations Group, which collects criminal intelligence and dismantles drug distribution operations; (2) the Drug Smuggling Interdiction Group, which dismantles drug smuggling organizations; (3) the Money Laundering Initiative Group, which identifies criminal organizations that engage in money laundering; (4) the Interdiction of Drugs and Weapons Organization, which gathers information for investigating and prosecuting drug trafficking, money laundering, and violent criminal organizations; and (5) the Violent Crime Group, which identifies and prosecutes armed career criminals, gang members, and firearms traffickers.

- Established the new Treatment Automated Referral System (developed in other HIDTAs), which electronically links drug treatment facilities and will be used to refer clients for treatment and track their progress through the treatment system.

This system also will provide a way to evaluate the effectiveness of drug treatment providers.

- Established four satellite task forces: one in Ponce (southern coast), one in Farjardo (Roosevelt Roads), and two in the Virgin Islands. The Farjardo Task Force, activated in February 1996, has seized 3,613 kilograms of cocaine.

The following agencies and organizations participate in the Puerto Rico/U.S. Virgin Islands HIDTA:

- Bureau of Alcohol, Tobacco and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Services; Internal Revenue Service; Naval Criminal Investigative Service; U.S. Attorney's Office, District of Puerto Rico; U.S. Attorney's Office for the Virgin Islands; U.S. Border Patrol; U.S. Coast Guard; U.S. Customs Service; U.S. Department of Defense, JTF-6; U.S. Marshals Service; U.S. Postal Inspectors Service; United States Secret Service.

- Administracion de Servicios de Salud Mental y Contra la Adiccion; Attorney General for Puerto Rico; Attorney General for the Virgin Islands; Negociado de Investigaciones Especiales; Puerto Rico Departamento de Justicia; Policia de Puerto Rico; Puerto Rico National Guard; Virgin Islands Police.

The Puerto Rico/U.S. Virgin Islands HIDTA received $9 million in Fiscal Year 1996.

Southwest Border HIDTA

The Southwest Border HIDTA, designated in 1990, encompasses areas along the 2,000-mile Southwest Border in four States: California, Arizona, New Mexico, and Texas. Aside from several metropolitan areas, only a small percentage of the border areas are inhabited, making detection and apprehension of illicit drug traffickers difficult. The region primarily consists of vast remote stretches of desert, mountains, and river-bounded terrain.

The Southwest Border area has 27 legal ports of entry, some of which have extensive commercial, commuter, and tourist traffic. Most of the cocaine entering the United States crosses the Southwest Border, and marijuana and cocaine are the drugs most frequently seized at the numerous checkpoints and traffic stops. The following are the major initiatives of the Southwest Border HIDTA, by partnership: the California Partnership, the Arizona Partnership, the New Mexico Partnership, the South Texas Partnership, and the West Texas Partnership.

- **California Partnership (San Diego and Imperial Counties)**

  —Imperial Valley Interdiction Project. A 17-agency, co-located project that disrupts drug trafficking routes and destroys drug trafficking organizations in the Imperial County area by providing early warning information and fused intelligence to HIDTA partners.

  —Major Mexican Traffickers Initiative (Southwest Border initiative). A major multi-agency initiative combining the forces of the Federal Bureau of Investigation

(FBI), the Drug Enforcement Administration, and the U.S. Customs Service with State and local surveillance groups and three dedicated Assistant U.S. Attorneys. It also incorporates a Border Corruption Task Force of the FBI with the Department of Justice's Office of Inspector General and the Internal Revenue Service. The initiative is designed to enhance and expand the teamwork function of the Southwest Border HIDTA by combining the roles of a proactive corruption targeting mechanism with the traditional organizational targeting system of measurement. Targets include major multidrug trafficking organizations operating in Southern California and Northern Baja California.

—Operation Alliance Task Force. A 10-member multiagency, co-located task force that attacks drug transportation, smuggling, and distribution organizations along the California/Mexico border.

—San Diego/Imperial County Regional Narcotic Information Network (NIN). A regional intelligence center for the California Partnership that has (1) a watch center for exchanging intelligence information and coordinating critical law enforcement activities, such as searches and arrests; (2) an analytical unit that provides tactical analytical case support; (3) a surveillance equipment pool; and (4) an operational intelligence unit focused on targeting and strategic planning.

- **Arizona Partnership (Cochise, Maricopa, Pima, Pinal, Santa Cruz, and Yuma Counties)**

—Southwest Border Alliance. A 20-member multi-agency, co-located task force that uses a multifaceted investigative approach to interdicting illicit drugs and dismantling drug trafficking and money laundering organizations using Yuma as a major point of entry.

—MANTIS (Metropolitan Area Narcotics Trafficking Interdiction Squads). A 30-member multi-agency, co-located task force that investigates all levels of drug trafficking, with particular emphasis on major organizations involved in violent and gang-related activities.

—Santa Cruz County Task Force. A 15-member multi-agency, co-located task force that dismantles all levels of drug trafficking organizations.

—Post Seizure Analysis Team. A 12-member intelligence team that identifies networks and individuals involved in drug trafficking and those with links to core and secondary drug trafficking organizations.

—Joint Drug Intelligence Group. A 15-member multi-agency, co-located intelligence center in Phoenix that identifies (1) key drug traffickers and drug trafficking organizations, (2) functions and methods of drug trafficking and money laundering organizations, (3) police/public corruption, and (4) methods of communication among drug traffickers.

—Border Alliance Group (Cochise County Border Alliance Group). A 45-member task force housed in three locations which disrupts drug trafficking organizations operating in an through the areas.

—Pinal County Drug Task Force. A 19-member multi-agency, co-located task force that targets drugs trafficking, distribution, and interdiction in and through central Arizona.

—Maricopa County HIDTA Task Force. A co-located DEA/Phoenix Police Department task force that disrupts the production and distribution of methamphetamine.

—Tucson HIDTA Task Force. A major multi-agency task force that emphasizes investigations of drug trafficking organizations moving large amounts of drugs. Its specialized techniques include the development of intelligence and wire taps.

- **New Mexico Partnership (Bernalillo, Dona Ana, Eddy, Grant, Hildalgo, Luna, Lea, and Otero Counties)**

— Interdiction Task Forces. The task forces include a 31-member interdiction task force in Albuquerque and a 24-member interdiction task force in Las Cruces that dismantle drug trafficking organizations in designated regions.

—Joint Drug Intelligence Group. A 14-member multi-agency, co-located intelligence group that functions as a strategic and tactical intelligence center for New Mexico. It identifies core and secondary level drug trafficking organizations operating in the HIDTA.

—Prescience Analysis Team Tactical Online Network (PATTON). An intelligence center that provides assistance and case support to inspectors at ports of entry and Border Patrol checkpoints, and investigators in the field in Las Cruces and the surrounding areas.

—Prosecuting Initiative. An initiative that ensures coordinated prosecution efforts by the U.S. Attorney's Office and the District Attorney's Office in support of various task forces in New Mexico with the goal of co-locating prosecution resources.

—Investigative Task Forces. Eight multi-agency investigative task forces of Federal, State, and local agencies operating in the HIDTA areas. The task forces disrupt and dismantle drug trafficking organizations in an intelligence-driven and coordinated fashion.

- **South Texas Partnership (Bexar, Cameron, Dimmit, Jim Hogg, Hidalgo, Kinney, La Salle, Maverick, Starr, Val Verde, Webb, Willacy, Zapata, and Zavala Counties)**

—Laredo HIDTA Multi-Agency Narcotics/Financial Transshipment Disruption Task Force. A 44-member task force that targets a five-county area for dismantling and disrupting international drug trafficking and money laundering organizations.

— San Antonio Multi-Agency Investigative Partnership. A 26-member partnership that targets both money laundering and drug trafficking organizations. It includes an approach for targeting drug couriers and methods of transportation used by drug traffickers as a means of dismantling and disrupting their organizations operating in the South Texas area.

—Multi-Agency Major Organizations Investigative Task Force. This task force targets major Mexican drug trafficking organizations and has components in Laredo, Brownsville, McAllen, and San Antonio.

—Hidalgo County Financial Disruption Task Force. A 16-member multi-agency, co-located task force that disrupts and seizes the assets of money laundering organizations.

—McAllen Financial Task Force. A multi-agency, co-located task force that investigates major money laundering organizations operating in South Texas and Mexico. It takes full advantage of its close working relationship with Mexican official counterparts.

- **West Texas Partnership (Brewster, Crockett, Culberson, El Paso, Hudspeth, Jeff Davis, Presidio, Pecos, and Terrell Counties)**

—Multi-Agency Task Force. This task force targets drug trafficking organizations using sophisticated investigative techniques.

—Hijack Task Force. A new multi-agency task force that targets the transportation industry used by drug trafficking organizations moving drugs in and out of the West Texas area.

—Drug Intelligence Unit. This unit provides organizational profiles and analysis for investigating drug trafficking organizations.

—Interdiction Initiative. An initiative focused on interdiction efforts by U.S. Border Patrol and U.S. Customs personnel at ports of entry, between ports of entry, and at checkpoints/traffic checks.

—Portrunning Task Force. A task force that grew from the need to combat the use of "shotgunning" and "portrunning" by drug trafficking organizations at ports of entry.

—Financial Task Force/Financial Disruption Unit. A multi-agency task force that targets the money laundering activities of major drug trafficking organizations operating in the West Texas area. The Financial Disruption Unit takes advantage of Texas laws regulating *Casa de Cambios* and is focused on disrupting the movement of drug money to and from the United States and Mexico.

The Southwest Border HIDTA has a Partnership Executive Committee for each of its five regions. Listed below are the member agencies of the five committees, which consists of representatives from Federal, State, and local agencies. The chair and vice-chair of each Partnership Executive Committee comprise the Southwest Border HIDTA Executive Committee. Numerous additional agencies and organizations are participating in the various HIDTA-funded task forces.

- Bureau of Narcotics Enforcement; Criminal Investigations Division; Drug Enforcement Administration; District Attorney's Office of New Mexico; Federal Bureau of Investigation; Joint Task Force Six; Internal Revenue Service; U.S. Attorney's Office; U.S. Border Patrol; U.S. Customs Service; U.S. Immigration and Naturalization Service; and the U.S. Secret Service.

- Arizona Department of Public Safety; California Department of Justice; California National Guard; New Mexico Department of Public Safety; and the Texas Department of Public Safety.

- Albuquerque Police Department; Eddy County Sheriff's Department; El Paso County Sheriff's Office; El Paso Police Department; Hidalgo County Sheriff's Department; Imperial County Sheriff's Office; Las Cruces Police Department; Maricopa County Sheriff's Office; Phoenix Police Department; Pima County Sheriff's Office; San Antonio Police Department; San Diego County Sheriff's Office; San Diego Police Department; and the Yuma County Police Department.

The Southwest Border HIDTA received $38.0 million in Fiscal Year (FY) 1994, $37.7 million in FY 1995, and $35.7 million in FY 1996.

Washington, DC/Baltimore HIDTA

The Washington/Baltimore metropolitan area was designated as a "Distribution" HIDTA in 1994, a prototype for halting illicit drug distribution. It is the only HIDTA to institute drug treatment in the criminal justice system.

Since its designation, the Washington/Baltimore HIDTA has established an Executive Committee, an information center, and four co-located office sites. It also has expanded and improved drug treatment and followup services for hardcore drug users in the criminal justice system. The goals of the program are to (1) decrease the number of hardcore drug users, (2) reduce the number of drugs and firearms trafficking organizations, and (3) reduce the level of drug-related violence in the HIDTA region.

The following are some of the major components of the Washington/Baltimore HIDTA:

- *Watch Center*.—This 16-hour, 5-days-per-week center provides timely, tactical drug- and crime-related information to law enforcement officers and prosecutors, using the most advanced automated systems technology. Events deconfliction and the Suspect Pointer Index Information System are automated and used to promote officer safety and eliminate duplicative efforts.

- *Co-Located Sites*.—The four co-located sites in Howard County (Maryland), the District of Columbia, Greenbelt (Maryland), and Northern Virginia house 23 initiatives that target (1) drug trafficking organizations, (2) violent trafficking organizations, (3) weapons trafficking organizations, (4) money laundering organizations, (5) organizations that operate within public housing, and (6) violent alien drug trafficking organizations.

- *Investigative Support Unit*. This unit provides case support for the HIDTA's 23 law enforcement initiatives. Highly skilled analysts perform a variety of analytical tasks, resulting in better cases, and at the same time, help keep sworn officers "out of offices and on the streets."

- *Drug Treatment Initiatives*.—The drug treatment initiatives focus on requiring drug-addicted offenders to receive treatment and linking major drug treatment centers with regional drug courts and criminal justice components. These initiatives are designed to reduce recidivism and increase public safety through the use of graduated sanctions for noncompliance with program requirements and are working toward a complete integration of the treatment and criminal justice systems. This integration creates a seamless system to compel addicted offenders to stay drug free. The HIDTA plans to implement an automated information system to monitor the progress of drug offenders, evaluate treatment providers, and link drug offenders to their criminal justice agencies.

- *Prevention Initiatives.*—HIDTA prevention initiatives include creating a competitive grant program for proposals designed to promote positive changes in youth behavior by providing alternatives to criminal and substance abusing activities. A minimum of three grants will be awarded, at least one per State.

- *Strategic Analysis Unit.*—This unit provides strategic and operational intelligence to law enforcement personnel in the HIDTA region, allowing them to obtain valuable information about criminals. It provides geographic and individual criminal targeting packages developed from personal interviews and inquiries into several databases and makes recommendations for directing enforcement operations based on this information.

- *Evaluation Component.*—The Washington/Baltimore HIDTA is the only HIDTA with a section dedicated to scientific program evaluation. Evaluation designs for the law enforcement and drug treatment components are complete, and the design for the prevention component is under way.

- *National HIDTA Information Unit.*—This unit informs HIDTA members of the law enforcement, treatment, criminal justice, and prevention communities and interested personnel about the latest HIDTA activities, emerging drug trends, and policies.

The Washington/Baltimore HIDTA encompasses the following jurisdictions: city of Baltimore; Baltimore, Howard, Anne Arundel, Charles, Montgomery, and Prince George's counties in Maryland; District of Columbia; city of Alexandria; and Arlington, Fairfax, Loudoun, and Prince William counties in Virginia. The agencies and organizations listed below participate in the Washington/Baltimore HIDTA. Additional agencies and organizations participate at the task force level.

- Administrative Judge of the Circuit Court (DC); Bureau of Alcohol, Tobacco and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Superior Court of the District of Columbia; U.S. Attorney for the District of Columbia; U.S. Attorney for District of Maryland; U.S. Attorney for Eastern District of Virginia; U.S. District Court; U.S. Customs Service; and the United States Secret Service.

- Alcohol and Drug Abuse Administration (Baltimore); Arlington County Police Department; Baltimore County Police Department; Baltimore Police Department; Commonwealth Attorney; DC Metropolitan Police Department; DC Pretrial Services Agency; Division of Adult Addiction Services (Maryland); Division of Parole and Probation (Maryland); Governor's Office of Crime Control and Prevention; Loudoun Community Services Board; Maryland State Police; Metropolitan Washington Council of Governments; Prince George's County Police Department; State Attorney for Baltimore City; and the Virginia State Police.

The Washington/Baltimore HIDTA received $12.2 million in Fiscal Year 1996.

Empowerment Zone HIDTAS

In 1995 the Office of National Drug Control Policy designated three Empowerment Zone HIDTAs to target Federal drug control funding in areas of the United States designated as Empowerment Zones. Empowerment Zones revitalize communities through economic and social services. E-HIDTAs are smaller in nature and narrower in scope than the seven major HIDTAS.

Atlanta Empowerment HIDTA

The Atlanta E-HIDTA identifies and targets gangs and core and secondary drug trafficking organizations in the Empowerment Zone in Atlanta, which encompasses the major

areas of Fulton County and the city of Atlanta. As a major transportation hub of the United States, Atlanta is a consumer and major transshipment center for cocaine, crack-cocaine, heroin, marijuana, and other dangerous drugs.

Since its designation, the Atlanta E-HIDTA has developed three enforcement groups, which target gangs and drug trafficking organizations by region, and an intelligence support group. The efforts of these groups have successfully identified multiple gangs and drug trafficking organizations, some as large as 300 members.

The following are members of the Atlanta HIDTA: Atlanta Police Department; Bureau of Alcohol, Tobacco and Firearms; Drug Enforcement Administration; Federal Bureau of Investigation; Georgia Bureau of Investigation; Georgia Army National Guard; Georgia State Patrol; MARTA (Metropolitan Atlanta Rail and Transit Authority); U.S. Attorney's Office; and the Fulton County District Attorneys Office.

The Atlanta E-HIDTA received $916,715 in Fiscal Year 1996.

Chicago Empowerment HIDTA

The Chicago E-HIDTA consists of large sections of the south and west sides of the city of Chicago, where the largest and most powerful street gang is called the Gangster Disciples. The gang, which is well organized, controls and supervises the distribution of large amounts of cocaine, crack-cocaine, and heroin.

The mission of the Chicago E-HIDTA is to disrupt and dismantle the upper echelon of the Gangster Disciples. In carrying out its mission, the HIDTA has supported the Organized Crime Drug Enforcement Task Force in prosecuting the Gangster Disciple hierarchy, identified individuals in the gang, conducted undercover investigations, and developed substantial evidence on drug homicides.

The following are members of the Chicago E-HIDTA: Bureau of Alcohol, Tobacco and Firearms; Chicago Housing Authority; Cook County Sheriff's Department; Cook County State Attorney's Office; Chicago Police Department; Drug Enforcement Administration; Federal Bureau of Investigation; Illinois Attorney General's Office; Illinois Department of Corrections; Illinois National Guard; Illinois State Police; Internal Revenue Service; U.S. Attorney's Office; U.S. Customs Service; U.S. Department of Housing and Urban Development; U.S. Marshals Service; and the U.S. Secret Service.

The Chicago E-HIDTA received $916,715 in Fiscal Year 1996.

Philadelphia/Camden Empowerment HIDTA

As a major international seaport and the fifth largest city in the United States, Philadelphia is a consumer of cocaine, heroin, and other dangerous drugs, as well as a large producer of methamphetamine. Major structured drug trafficking organizations have evolved in urban population centers, and in many of these areas, street drug trafficking organizations are among the principal employers, offering opportunities for economic and social advancement. Camden, New Jersey, receives the overflow of drug trafficking from Philadelphia and has many of the same drug problems.

The mission of the Philadelphia/Camden E-HIDTA is to combine Federal, State, and local resources to dismantle the most significant drug trafficking and money laundering organizations in the area. HIDTA resources are concentrated on coordinating and enhancing the 15 to 20 operations and task forces currently operating within the Empowerment Zones. Initiatives

include drug task forces and an intelligence group. The Empowerment Zones encompass two adjoining states, two counties, and two Federal judicial districts.

The following are members of the Philadelphia/Camden E-HIDTA: Bureau of Alcohol, Tobacco and Firearms; Camden Police Department; Camden County Prosecutor's Office; Camden County Sheriff's Office; Drug Enforcement Administration; Federal Bureau of Investigation; Immigration and Naturalization Service; New Jersey State Police; Pennsylvania National Guard; Philadelphia District Attorney's Office; Philadelphia Police Department; U.S. Attorney's Office, Eastern District of Pennsylvania; U.S. Attorney's Office, New Jersey; and the U.S. Marshals Service.

The Philadelphia/Camden E-HIDTA received $651,492 in Fiscal Year 1996.

Question

14.f. Can you provide us with specific allocation by HIDTA for the record?

Answer

HIDTAs	State/local	Federal	Total
Houston	4.8 M	4.8 M	9.6 M
Miami	6.3 M	6.4 M	12.7 M
New York	4.9 M	4.7 M	9.6 M
Washington/Baltimore	11.6 M	0.5 M	12.1 M
Puerto Rico/US Virgin Islands	4.5 M	4.5 M	9.0 M
Los Angeles	5.0 M	6.5 M	11.5 M
Southwest Border	23.0 M	12.7 M	35.7 M
Empowerment HIDTAs			
Chicago	0.8 M	0.1 M	0.9 M
Atlanta	0.4 M	0.5 M	0.9 M
Philadelphia/Camden	0.3 M	0.4 M	0.7 M
National Institute of Justice		0.2 M	0.2 M

Question

14.g. What is the status of the Puerto Rico - Virgin Islands HIDTA, have the funds allocated for this HIDTA been fully obligated? If not, why?

Answer

ONDCP fully obligated the funds for the Puerto Rico - Virgin Islands HIDTA on December 5, 1995. The Committee was notified on November 27, 1995.

Question

14.h. How would you compare the success of the HIDTA program to that of the Organized Crime Drug Enforcement Task Force program?

Answer

The HIDTA and the OCDEF programs are complementary and have experienced mutual success. The HIDTA program focuses on strategic outcomes in designated areas of the country and supports local, State, and Federal partnerships to develop teamwork through joint strategies, shared intelligence, and collocated task forces. The OCDETF program is a case-specific funding mechanism that supports many of the cases conducted by the HIDTA task forces.

The OCDETF program, begun in 1982, has achieved numerous successes in multi-agency investigations and prosecutions around the country. The HIDTA program, begun in 1990, has had numerous successes in joint border interdictions, investigations, intelligence, and prosecutions in the most critical drug trafficking areas of the country.

OCDETF successes are achieved case-by-case. HIDTA successes are achieved by developing regional strategies and long-term partnerships among local, State, and Federal agencies.

Question

15. What is the status of the staffing enhancements to your office as provided for in the $3.4 million supplemental? Do you expect to obligate the entire $3.4 million on personnel compensation and benefits this fiscal year?

Answer

ONDCP is in the process of hiring the additional 80 FTE to achieve a staff of 154 FTE (including 30 detailees) as planned and outlined to the Subcommittee. At the close of the fiscal year, we project that ONDCP will have 102 FTE on board, including 25 detailees. Currently, ONDCP has 66 staff and 17 detailees. As indicated in the reprogramming request approved in August, we will not utilize the entire $3.4 million requested in April 1996 on personnel and compensation by the end of FY 96. Instead, these resources will support the build-up of space for the new employees and to purchase the necessary supplies and equipment to support the additional staff; strengthen our prevention efforts with several youth oriented initiatives; extend contractor support for the development of performance measures; and expand the Drugs and Crime Clearinghouse to include conference planning.

Question

16. How did you arrive at the organization you are now putting together for your office--in other words--how do you know this blueprint will work to properly coordinate drug policy?

Answer

ONDCP created the organization that is now being assembled by building on the basic architecture of components which directly support the *National Drug Control Strategy*: the Office for Demand Reduction, the Bureau of State and Local Affairs, and the Office for Supply Reduction. The Office of Programs, Budget, and Evaluation has been expanded to better examine and coordinate the budgets of the more than 50 agencies responsible for counterdrug activities. Additional positions were created to develop a well-balanced organization to better implement the Strategy. We intend to evaluate the organizational structure as it evolves to ensure that it works to coordinate drug policy in the best way posssible, and make adjustments as needed.

Question

17. What will be the role of the Counter-Drug Technology Assessment Center (CTAC) in terms of support to state and local organizations?

Answer

CTAC has an infrastructure support and an outreach program. The infrastructure support program provides the LEAs with access to testbeds, instrumentation and engineering support to evaluate counterdrug technology in operational environments. Through the outreach program, State and local organizations have participated in three major technology symposia and four regional workshops on requirements, advancements, and new applications of technology. CTAC will continue its series of one-day workshops and will host the fourth international symposia during the summer of 1997. For example, some CTAC-sponsored projects conducted in support of State and local include:

Command, Control, and Communications

Tracking and surveillance operations are extremely important to effectively disrupt drug traffickers and improve the safety of our law enforcement personnel. In support of this area, several initiatives have been pursued to improve tracking and communications technology.

A hand-held Global Positioning System (GPS) tracking system has been developed to allow police to track their vehicles and improve drug-related criminal investigations. One prototype system has been successfully field tested with the Yonkers Police Department, New York, Narcotics Division.

During similar field trials, a felony drug conviction was obtained by the Fulton County Sheriff's Office in Rochester, Minnesota. A warrant based on GPS coordinates for a rural location with no address was obtained from a hand-held GPS prototype.

GPS-Based Tracking Systems

Two testbeds are exploring advancements in tracking and surveillance.

- The Narcotics Division of the Yonkers Police Department, New York is evaluating a GPS-based tracking and surveillance system integrated with an automated two-dimensional mapping information system.

- Project Signcutter is being performed in conjunction with the Pima County Sheriff's Department, Arizona. The project integrates synergistic technologies of geographic information systems, data communications and GPS to support counterdrug tracking and surveillance missions.

GLADYS Call Processing System

With the increasing use of illegal clone cellular phones as a standard accessory for members of drug organizations from smugglers to distributors to street dealers, the GLADYS system was developed to allow law enforcement officers to identify individuals who may be involved in drug-related activities by observing their relationships to other individuals who are already under investigation. Through the definition of groups, key members, and clusters, the system can analyze basic, first and second order relationships between subscribers (telephone company land line phones) and mobile telephone users.

The GLADYS Call Processing System was developed in conjunction with the State of New York Organized Crime Task Force. GLADYS allows field investigators to process and analyze telephone communications traffic. GLADYS captures telephone company billing data. The system receives and stores telephone number, date, time, and duration of a call, not the content of the telephone conversation. The system will allow law enforcement users to identify communications patterns within and between groups of suspect drug traffickers.

Telephone traffic logs available from the telephone company are the major source of data inputs to GLADYS. In a current operation, the GLADYS system is being used to process input subsets of 2,000 targeted calls per day covering a particular sector of subscribers.

The system is now being used extensively by the Organized Crime Task Force in the state of New York. CTAC plans to make the basic system available to a wide range of drug enforcement agencies over the next year.

West Florida Counterdrug Information Network

A prototype system using asynchronous transfer mode (ATM) technology is being tested by a Florida law enforcement consortium led by the Pinellas County Sheriff's Office. Tennessee Valley Authority supported by University of Tennessee research scientists manages the ATM testbed. The testbed is comprised of an ATM high speed, wideband digital communications network. The testbed opened in August 1995 and links the narcotics bureaus of the major law enforcement agencies in the Tampa - St. Petersburg region. The network allows consortium members, including the main headquarters of Pinellas County Sheriff's Office and its Narcotics Bureau, the St. Petersburg Police Department's Narcotics Bureau, the State's Attorney's Office, and the Narcotics Bureaus of the Pasco, Manatee and Hillsborough County Sheriff's Departments, almost instantaneous access to the databases of other members through remote log-in, electronic mail and file transfer capabilities.

The digital network draws upon the most advanced data access, storage and fusion technologies and has been used to support several ongoing investigations while being developed. The Tampa - St. Petersburg FBI field office is also considering joining the network.

Next year's goal is to achieve "portability" to be able to take the prototype system software and load it in another system where it can be implemented using as much existing software and hardware as possible regardless of type of computer or physical location.

First-Time and Youthful Offenders

In response to recent increases in drug-related crimes and in particular the number of juvenile arrests on drug related charges, CTAC is sponsoring a study to evaluate the treatment technologies used in court diversion programs for juvenile offenders with drug abuse problems. This study, being conducted by the Medical College of Pennsylvania and Hahnemann University, employs an experimental design to evaluate two approaches to court diversion in comparison with a non-diversion "treatment as usual" control condition. The evaluation will include methodical outcome assessments and process analyses for all three study conditions. Subjects of the research will be adolescents who are ages 15, 16, and 17 when charged; who have been adjudicated delinquent on the basis of a drug related offense; and who upon methodical screening, show evidence of a pattern of illicit drug use.

Outreach Program

As part of CTAC's coordination function, an outreach program was begun to bring scientists and engineers in the development community together with those system users and law enforcement professionals within the government involved in counterdrug operations. Four major technical counterdrug symposia have been held by CTAC:

- Counterdrug Law Enforcement: Applied Technology for Improved Operational Effectiveness International Technology Symposium, Counterdrug Technology Assessment Center, Office of National Drug Control Policy, October 24-27, 1995, Nashua, New Hampshire;

- Drug Abuse Treatment Technology Workshop, Counterdrug Technology Assessment Center, Office of National Drug Control Policy, August 15-16, 1995, Baltimore, Maryland;

- Tactical Technologies and Wide Area Surveillance International Symposium (Unclassified), U.S. Department of Energy, Argonne National Laboratory, November 2-5, 1993, Chicago, Illinois; and

- Contraband and Cargo Inspection Technology International Symposium (Unclassified), Office of National Drug Control Policy and National Institute of Justice, October 28-30, 1992, Washington D.C.

One-day technology workshops have been held this year to address specific user needs and technological opportunities.

- Police Executive Research Forum/CTAC Technology Seminar, March 14, 1996, St. Petersburg, Florida;

- ONDCP/CTAC Regional Technology Workshop, April 23, 1996, Austin, Texas; and

- ONDCP/CTAC Regional Technology Workshop, July 17, 1996, St. Louis, Missouri.

Additional workshops are scheduled for Minneapolis, Minnesota and several other locations later this year.

Question

18. How do you intend to use the 30 DoD planners?

Answer

Of the 30 DoD positions designated, 17 are analysts. Eight analysts are located in the three primary components: the Office for Demand Reduction, the Bureau of State and Local Affairs, and the Office for Supply Reduction. Three are located in the Office of Intelligence and six in the Office of Programs, Budget, and Evaluation. Additionally, there are planners and assistants. Three planners are in the Office of Strategic Planning and seven assistants work respectively in the Offices of the Director, Deputy Director, Legal Counsel, Public Affairs, and Chief of Staff. The remaining three positions are designated as Staff Directors assigned to the three primary components: Office for Demand Reduction, Bureau of State and Local Affairs, and Office for Supply Reduction

17 Analysts
3 Planners
7 Assistants
3 Staff Directors
30 TOTAL

Question

19.a. Is there a process in place which would permit ONDCP to send a budget amendment to the Congress during the year if information develops late in the appropriations process showing balances may become available for transfer to the Special Forfeiture Fund? In not, why not?

Answer

There is a process which requires the President to send a supplemental appropriation to the Congress to permit the appropriation of the funds Treasury and Justice transferred to the Special Forfeiture Fund for ONDCP's use.

No transfers were made to the fund during the FY 97 budget formulation process. The current deposit of $22 million by the Department of the Treasury was made too late in CY 95 to be available in the FY 97 budget formulation process. Historically, ONDCP has sought to use Special Forfeiture Funds as part of its annual appropriations, particularly when the Congress permits a portion of the funds to be used at the discretion of the Director.

The uncertainty of deposits into the fund has forced ONDCP to rely on regularly appropriated funds to fund salaries and expenses, CTAC and the High Intensity Drug Trafficking Area (HIDTA) program. ONDCP should be assured of the availability of funds for activities to be funded.

Question

19.b. Since there is currently $22 million in the Special Forfeiture Fund, why has no request been made to use those funds for drug control activities?

Answer

The current balance in the Special Forfeiture Fund is available until appropriated. ONDCP will propose appropriation of these funds, if they are available, in the FY 98 budget cycle, or sooner if an emergency need arises. Moreover, 21 U.S.C. 1509(c) permits the transfer or obligation of any unobligated balances up to $20,000,000 on September 30 of a fiscal year for drug control activities on the written approval of the Committees on Appropriations.

Question

19.c. Do you believe a better system can or should be formulated, whether that requires legislative changes or not, to ensure that balances are made available to the Special Forfeiture Fund from both the Treasury and Justice Funds? If not, why not? If so, what changes do you believe would be helpful?

Answer

Under current law, 28 U.S.C. 524, 31 U.S.C. 9307, and 21 U.S.C. 1509, the Departments of the Treasury and Justice transfer up to one-half of the excess unobligated balances in the Treasury and Justice funds to the Special Forfeiture Fund at the end of the fiscal year, with a ceiling of $100,000,000 on such transfers into the Special Forfeiture Fund. The difficulty in relying on the use of the fund, however, arises not from the authorizing language, but from the regularity of deposits into the Special Forfeiture Fund from Treasury and Justice, and when those funds become available for ONDCP's use. The Justice Forfeiture Fund, for example, has not realized surplus balances since FY 94. Treasury's $22 million deposit in late CY 95 was not anticipated.

Question

20.a. Is it true that taking funding from DOD to fund a variety of demand and supply activities will be considered as part of the '97 budget process? Can you tell us how you decide to parcel out these new funds? What is the status of the request? What will be the impact if the funding is not provided?

Answer

At the request of the President, ONDCP headed an interagency effort to recommend a reallocation of $250 million into high impact, near-term counterdrug programs to respond to emerging counterdrug threats. In April, the Administration's request was transmitted to Congress for supplemental appropriations, which would have reallocated $250 million from the FY 96 DoD budget into high priority counterdrug programs. Congress did not act on this request for FY 96, but indicated its intention to fund these high priority programs in FY 97 (P.L. 104-134).

The programs were selected for inclusion in the package as a result of extensive interagency deliberation. Agencies nominated $1.3 billion of programs for consideration for inclusion in the reprogramming package. Agencies prioritized requests and participated in discussions of the various proposals. Programs that were ultimately selected were the ones with the highest and near-term impact, responsive to newly emerging threats or problems, appropriate for DoD funding, and containing innovative policy initiatives.

The FY 97 DoD Authorization bills in both the House and Senate addressed many of the requested items within the $250 million request that came under DoD purview. $139 million of the original initiative was funded in the FY 97 DoD Appropriations bill and the Omnibus Appropriations bill, leaving $111 million unfunded. An additional $107 million was provided for related activities not included in the original $250 million initiative. However, virtually none of the demand reduction-related items included in the $250 million initiative were funded.

The status of the FY 97 $250 million counternarcotics supplemental request is delineated in Tab B.

$250M FY97 SUPPLEMENTAL REQUEST

($ IN MILLIONS)

REQUESTED PROGRAM	AGENCY	AMOUNT REQUESTED	CONFERENCE (REQUESTED)	CONFERENCE (NOT REQUESTED)	REMARKS
DoD Programs:					
2 P-3 Aircraft for Customs	DoD	$98.000	$56.200		(SEE NOTE 1)
TPS-70 Radar	DoD	$16.000	$10.000		
Non-Obtrusive Inspection System	DoD	$6.000	$6.000		
National Guard Marijuana Eradication	DoD	$3.000	$3.000		
Classified Programs	DoD	$10.000	$3.078		
National Guard	DoD	—		$40.000	
Gulf States Counter-Drug Initiative	DoD	—		$8.500	
Multi-Jurisdictional Task Force Activities	DoD	—		$1.800	
C-26 Reconnaissance Upgrade	DoD	—		$3.500	
National Interagency Narcotics Institute	DoD	—		$3.000	
Southwest Border Information	DoD	—		$7.000	
SIGINT Equipment for Southwest Border	DoD	—		$2.000	
Riverine Operations in South America	DoD	—		$2.000	
Support for Military Counter-Drug in Mexico	DoD	—		$8.000	
Laser Strike	DoD	—		$11.000	
Total DoD Action		$132.000	$78.278	$86.800	
Other Agencies (thru ONDCP):					(SEE NOTE 3)
Operation Gateway	USCS	$7.000	$7.000	$21.000	(SEE NOTE 2)
P-3 Aircraft	USCS	—	$42.000		(SEE NOTE 1)
Riverine Craft	State	$4.000			
Aviation Refurbishment	State	$11.400			
Host Nation Aviation Support	State	$5.000			
Source Nation Interdiction	USCG	$6.600			
Transit Zone Interdiction	USCG	$8.000			
Methamphetamine Reduction	DEA	$10.000	$10.000		
Intelligence & Linguist Support	DEA	$3.000			
Classified Programs	DEA	$3.000			
Marijuana Eradication	DEA	$2.000			
Digital Intercept Equipment	FBI	$9.000			
Linguist Support	FBI	$2.000			
HIDTA Enforcement Actions	ONDCP	$2.000			
Youth Awareness Campaign	HHS/DOJ/Educ/NIDA	$15.750			
Criminal Justice/First Offenders Program	ONDCP/DOJ/HHS/NIDA	$22.600			
Cocaine Medical Research	NIDA/CTAC	$5.650			
Break the Cycle" Program	ONDCP	$3.000			
Director's Initiative Fund	ONDCP	$2.000	$2.000	$58.900	
Total for Other Agencies		$118.000	$61.000	$79.900	
GRAND TOTAL		$250.000	$139.278	$166.700	

Note 1: Original request was for entire $98M for P-3 aircraft to be funded in DoD account.
Conference action provides $56M to DoD and $42M to Customs (thru ONDCP Special Forfaiture Fund)

Note 2: Funding for Operation GATEWAY will go directly to Customs rather than pass thru ONDCP Special Forfaiture Fund account.

Note 3: Special Forfaiture Fund availability tied to a Presidential request for supplemental as an emergency requirement.

Question

20.b. With respect to the Customs P-3AEW retrofits, since Customs owns four P-3 AEWs now devoted solely to drug interdiction, why not transfer the funds directly to Customs to do the procurement? What assurance can you give us that if the funds are provided to DOD for these aircraft, they will be transferred to Customs and will be deployed at the direction of the Customs service?

Answer

DoD cannot transfer funds directly to Customs because they have no legal authority to do so. The FY 97 Authorization Act authorizes the Department of Defense to procure or modify "two P-3B aircraft for use by departments and agencies of the United States outside the Department of Defense for drug interdiction and counter drug activities." DoD is bound by recurring provisions of the Appropriations Act which prohibits transfer of funds in absence of a specific appropriations law.

The Navy is already modifying P-3s and procuring AEW radars under existing contract; thus, it may be the most cost efficient to modify the additional two aircraft using the existing Navy contractual vehicles. There is real value in ensuring that the Customs P-3 AEWs are very close to identical Navy systems to reduce maintenance and training costs. Customs could still oversee the modification program. We will have to decide specifically how to proceed after discussing the details with the Navy and Customs.

Question

20 c. What has been your experience with the effectiveness of the P-3 AEW aircraft operated by the Customs Service? How does the cost to operate and maintain these aircraft compare to E3s or other detection and tracking assets?

Answer

The Customs-operated P-3 AEW aircraft have been effective against air smuggling targets, and have some operating advantages over DoD assets regarding the willingness of countries to allow overflights. The P-3s have performed well in South America and the Caribbean. The newly modified P-3 AEWs will achieve even better performance than existing Customs assets since the new P-3s will have a state-of-the-art APS-145 radar system versus the older APS-138 radar in the existing P-3 AEWs.

The operating costs of Custom's P-3s are less than half of the operating costs of AWACs.

Question

20.d. If funding is approved for 2 additional P-3 AEWs, where do you plan to deploy these assets? Will the number of sorties flown be solely in support of SOUTHCOM or will these assets be shared with the Caribbean and Southwest border?

Answer

If P-3B aircraft are refurbished for Customs, the aircraft may be operated along the border, in the transit zone, or in the source countries. Operational decisions to deploy interdiction assets are made by the departments and agencies through an interagency process. The policy which guides decisions on allocation of interdiction assets was established by Presidential Decision Directive early in the administration and has not changed. This policy provides for an interdiction program at and near the border, in the transit zone, and in source countries. The policy also directed a shift in focus of interdiction emphasis from the transit zone to source countries.

Question

20.e. Do you plan to ensure that title to these aircraft are transferred to the Customs Service?

Answer

It is not clear from the language of the Defense Authorization bill that it is the intent of Congress to transfer title of the aircraft from DoD to Customs. Section 1032 of the bill authorizes the Department of Defense to procure or modify "two P-3B aircraft for use by departments and agencies of the United States outside the Department of Defense for drug interdiction and counter drug activities." The Department of Defense will work closely with the Customs service to devise arrangements that work to the greatest benefit of both agencies. The best arrangement may well entail a temporary loan, as is the case with some P-3s now in the Customs inventory.

Question

21.a. I believe in order for your office to work, you must have Unity Control. In other words, you must have the ability to make decisions with respect to the deployment of personnel and resources without having your decisions undermined by someone else in the Administration. The 1994 Crime Bill gave your office expanded authorities to "Command and Control". Are you aware of this authority? To your knowledge, has it been exercised?

Answer

The 1994 reauthorization of ONDCP gave the agency significant new authorities in the areas of drug control budget formulation, Federal drug control agency personnel and resource allocation, and funds control notices to national drug control program agencies. These authorities enhance ONDCP's ability to coordinate the Federal drug control effort in the manner Congress envisioned.

ONDCP has used the expanded budget authorities in the development of agencies' drug budget goals and objectives for the 1996 and 1997 National Drug Control Strategies. As part of its overall responsibility to energize the Federal drug control effort, ONDCP reviews how the agency can use its statutory authority to maximize the effectiveness of the Federal drug program.

Question

21.b. Do you plan to use this authority?

Answer

As noted above, ONDCP has used its authority to better coordinate the drug budget process necessary to implementing Federal drug control programs. ONDCP will use additional authorities as appropriate.

Question

21.c. Do you believe your office should be given additional authority to strengthen your command over drug control programs and policies?

Answer

ONDCP must be reauthorized by September 30, 1997 in accordance with 21 U.S.C. 1506. In preparing for its reauthorization by the Congress, ONDCP is currently reviewing all of its authorities, particularly those enacted in the Violent Crime Control and Law Enforcement Act of 1994 (P.L. 103-322), with a view toward making recommendations to Congress on how those

authorities can be improved. For example, the authority in 21 U.S.C. 1502(d)(d) to place drug control agency personnel on temporary detail to another drug control program agency must be clarified to specify that such details requested by the Director are to be made on a non-reimbursable basis. Further recommendations will be made to the Congress during the reauthorization process.

Question

22. It appears that the Gallup Poll, commissioned by your office, draws some inconsistent conclusions. First, that while the public believes drug abuse is a serious problem, 64% believe more money should be spent on stopping drugs from entering this country and 51% believe more money should be spent on drug treatment. Yet when asked what people believe is most effective use of our money to control drugs, 31% said interdiction and 28% said education and prevention. No other programs received higher than 22%. I am not sure what any of this means, General, except that the public is confused as to what should be the proper solution.

22.a. What do you make of the Gallup Poll?

Answer

First, I do not share you view that the results of the Gallup Poll draw inconsistent conclusions.

This is the first time ONDCP has tried this innovative approach to the consultation process used to develop the Strategy. It was undertaken to provide a clearer view of how the American public views this country's drug problem and what actions and measures they would support. This Administration has, from the beginning, based its drug policy on a bottom-up, grassroots design. This appears to be a good way to access the views and concerns at the grassroots level. Such polls are a useful means to collect the views of the American people.

What the Poll tells us is that most Americans clearly cherish the freedom they experience living in the United States today. However, when it comes to the things they are most concerned about, crime and drugs are at the forefront of the minds of millions of Americans. Reducing violent crime tops the list of priorities on which Americans believe tax dollars should be spent, with 84 percent of adults saying this is an extremely important area. Children are also clearly a concern, with more than eight out of ten reporting that reducing illegal drug use among children and adolescents, and increasing educational opportunities for children, are extremely important areas for tax dollars to be spent (82 percent each). Reducing illegal drug use among adults is viewed as relatively less important than reducing use among children, with slightly more than one-half of all American adults (57 percent) reporting it as extremely important in terms of where tax dollars should be spent.

Americans perceive a strong link between violent crimes and illegal drug use. Both illegal drug use and violent crimes are viewed as extremely important national concerns by the overwhelming majority of Americans. It is the crime and violence associated with drug use that most concerns Americans about drug use. Concern over illegal drug use and over crime and violence have increased significantly over the past five years. The reach and impact of drug use on children is also of prime concern among Americans. Americans generally support prevention and rehabilitation programs to reduce drug use as well as interdiction programs to reduce the drug supply at both the source country and at the dealer level, rather than harsh penalties for users.

Most Americans also see a larger role for treatment programs. Fully one-half (51 percent) of all adults agree strongly that more drug treatment programs should be available to reduce drug use. Only 15 percent feel that once a person is addicted to drugs, treatment and rehabilitation programs usually do not work. Furthermore, only 32 percent of Americans feel that harsh criminal penalties for using illegal drugs are an effective means of drug prevention.

When asked to say which of five major drug strategies they feel would be most effective in terms of where money should be spent to fight the war on drugs, no single strategy is endorsed by a majority of adults. Government interdiction to reduce the supply of drugs from entering the United States and expansion of education programs about the dangers of drugs are each supported by about three in ten Americans (31% and 28%, respectively). Additional efforts, including police action and criminal prosecution to stop the drug dealers, are also supported by many (22 percent). But if you combine the first and second choices for effective drug strategies, about one-half feel that reduction of the drug supply into the United States (50 percent), education programs (47 percent) and law enforcement of drug dealers (46 percent) are top strategies.

Finally, the poll tells us that Americans have very different perceptions of who should be responsible for stopping drug use among different user groups. The overwhelming majority (81 percent) feel that families and parents should be responsible for stopping drug use among children under age twelve. But when it comes to illegal drug use among adults, Americans see the duty falling on the shoulders of each of us as individuals to stop the drug problem. Almost one-half (42 percent) of Americans feel that individuals are responsible for halting drug use.

Question

22.b. Do you intend to formulate a strategy or change it based on polls like this?

Answer

No. We will not formulate a strategy based on polls, nor will we change the existing strategy based on polls. We will do what is right, not necessarily what is popular. It is, however, clear that we must do a better job of educating the public on the problems of drug abuse and governmental counterdrug programs. One of the missions of ONDCP must be debunking the numerous myths that persist regarding illegal drugs, drug abuse, and counterdrug effectiveness.

The American public needs to see proof that counterdrug efforts are working -- demonstrable measures of success consistently applied and publicized when appropriate. ONDCP is formulating and implementing an enduring, flexible strategy that, given proper funding, will demonstrate real, measurable progress to the American people.

CONCLUSION OF HEARINGS

Senator SHELBY. If there is no further business to come before the subcommittee, that concludes the hearings. The subcommittee will recess and reconvene subject to the call of the chair.

Thank you.

[Whereupon, at 11:15 a.m., Thursday, June 27, the hearings were concluded and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED BY INDEPENDENT AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE.—The following independent agencies of the Department of the Treasury did not appear before the subcommittee this year. The subcommittee requested these agencies to submit testimony in support of their fiscal year 1997 budget request. Those statements follow:]

FEDERAL LABOR RELATIONS AUTHORITY

PREPARED STATEMENT OF PHYLLIS N. SEGAL, CHAIR

INTRODUCTION

Mr. Chairman and Members of the Committee: Thank you for this opportunity to submit this statement for the record concerning the fiscal year 1997 budget request for the Federal Labor Relations Authority (FLRA). This statement is in addition to the FLRA's fiscal year 1997 Congressional Budget Submission and the testimony the FLRA submitted on April 23, 1996 at this Committee's hearing on "Reforming the Grievance Process". That submission and testimony went into some detail about the functions of the FLRA's three operational components, the agency's achievements to date and our strategies for the future. These will not be repeated here, but will instead be cross-referenced for the Committee's convenience.

The FLRA administers the labor-management relations program for over 1.9 million non-postal federal employees world-wide, more than 1.3 million of whom are exclusively represented in approximately 2,200 bargaining units. The FLRA's mission is to promote stable and constructive labor-management relations that contribute to an efficient and effective government. As you know, this mission takes on an added importance during today's times of government-wide reorganization and downsizing. It is, in short, during these times that the services of third-party dispute resolvers are needed most.

The three independent operating components through which the FLRA fulfills this mission are: the Authority—the adjudicatory component; the Office of the General Counsel (OGC)—the independent investigative and prosecutorial component; and the Federal Service Impasses Panel (Panel)—the component that resolves impasses in negotiations. The FLRA is, in effect, three agencies consolidated in one.

Whenever possible, the three independent components of the FLRA look for ways to assist disputing parties to discuss and bilaterally resolve problems themselves. Our goal is to help agencies and unions work together to resolve their problems and avoid, where possible, costly and protracted litigation. Our Budget Submission and April 23, 1996 testimony describe several examples of the mounting evidence that these FLRA activities are beginning to show results.

By emphasizing the practice of labor relations rather than labor law, and thereby reducing litigation between labor and management, our efforts are saving resources, time and money—for the litigants, the FLRA and the American taxpayer. The fiscal year 1997 budget request for the FLRA will provide the resources for the agency to efficiently and effectively continue down this path.

APPROPRIATION REQUEST

A. Overview

The fiscal year 1997 budget request of $21,988,000 to fully fund 216 FTE's for the FLRA supports all three of our primary operational components. Measured against the fiscal year 1996 estimate, this request represents an increase of $1,406,000 and 5 FTE's, four of whom will be used to fill vacancies in our field operations. The increase is needed to support an agency that is far smaller than it was in the fiscal

year 1993 Baseline level, and is reducing expenses in accordance with careful planning. It will place us at the level necessary to carry out the responsibilities entrusted to us by Congress and promote savings for other agencies who share the direct and indirect costs of conflict within their workplace.

We are mindful that this request will, and indeed, should be carefully scrutinized by Congress, particularly during these times of fiscal austerity. When doing this, it is important to recognize that the fiscal year 1997 request:

—seeks 16 fewer (7 percent) FTE's than last year's request to this Committee;

—continues a downward trend of 35 FTE's, or 14 percent from the fiscal year 1993 Baseline levels; and

—represents a 40 percent decrease from our staffing levels in the mid-80's. Since that time, Authority case writing staff has been reduced by over 40 percent; Administrative Law Judge positions have been reduced by over 50 percent; Office of the General Counsel field staff have been reduced by 25 percent; and central administrative overhead positions have been reduced by over 30 percent.

We have implemented plans to responsibly operate at these reduced levels by achieving efficiencies through streamlining, reinvention, internal reallocation of resources and reductions in FLRA administrative overhead. We believe that any deeper reductions at this time in our budget below the fiscal year 1997 request, which escalate our multi-year downsizing initiatives, will jeopardize our ability to effectively fulfill our statutory mission and is likely to increase the costs of workplace conflict to other federal agencies. There is a direct correlation between our FTE's and the speed with which the FLRA is able to resolve the disputes that are filed with us by federal agencies, unions, and/or employees. Backlogs in our case inventory translate to the tangible and intangible costs that accompany unresolved difficulties in other parts of the federal government.

B. Budget Breakdown by Component

As discussed above, the FLRA is three agencies consolidated into one. This consolidated structure makes it possible for the FLRA to shift resources to where they are needed most. For example, this budget request seeks to shift resources from the adjudicatory component (the Authority) to the field offices of the investigative and prosecutorial component (the Office of the General Counsel). This reallocation responds to workload changes and is designed to maximize the prospect of resolving more workplace problems without costly trials and appeals.

The specific budget breakdown, by component, of the fiscal year 1997 for the FLRA is:

The Authority.—The fiscal year 1997 budget request for the Authority totals $11,210,000 and 90 FTE's (assuming a 3.0 percent pay increase in January, 1997). This request will fund the same number of FTE's currently included in the fiscal year 1996 estimate. It reflects a reduction of 4 authorized positions from fiscal year 1996 and a cumulative reduction of 20 FTE's (approximately 20 percent) from the fiscal year 1993 baseline level. The Authority believes it can accomplish this cumulative reduction based on a projected stable level of cases; increased effectiveness of FLRA alternative dispute resolution activities; and heightened staff productivity and operational efficiencies.

The Office of the General Counsel.—The fiscal year 1997 budget request for the OGC totals $9,945,000 and 117 FTE's (assuming a 3.0 percent pay increase in January, 1997). It reflects a cumulative reduction of 13 FTE's (approximately 10 percent) from the fiscal year 1993 Baseline level.

Due to funding difficulties, the OGC expects to use 113 FTE's in fiscal year 1996—the lowest employment level ever. The FLRA's fiscal year 1997 budget request seeks to close this gap, by funding the OGC at 117. Assuming the requested FTE's can be funded in fiscal year 1997, the OGC will be in a position to more expeditiously process its caseload and reduce case inventory and overage cases, thus helping to diminish the high costs of unresolved conflict.

Federal Service Impasses Panel.—The fiscal year 1997 budget request for the FSIP totals $833,000 and 9 FTE's (assuming a 3.0 percent increase in January, 1997). The Panel Chair and Panel Members, working on a part-time basis, account for 1 of these FTE's. The request reflects a cumulative reduction of 2 FTE's (approximately 18 percent) from the fiscal year 1993 baseline level. It will fund 1 more FTE than funded in the fiscal year 1996 estimate, allowing the Panel to fully fund its authorized FTE's. The requested funding will permit the Panel to continue its efforts to timely and effectively resolve bargaining impasses between agencies and unions.

C. Budget Breakdown by Category

The FLRA's work is personnel intensive, leaving little flexibility to absorb budget reductions or mandatory cost increases such as pay increases or rental payments to GSA. Specifically, approximately 80 percent of the FLRA's fiscal year 1997 budget request is dedicated to personnel compensation and employee benefit costs. Rental of office space and communications costs account for another 12 percent of the fiscal year 1997 budget. All other categories combined account for approximately 8 percent of the budget.

This 8 percent (in all other categories of expenditure) is not discretionary by nature, but rather provides for necessary expenses in support of the FLRA's mission, including: travel to investigate, prosecute and adjudicate complaints; transcription costs to provide a record of formal hearing proceedings; purchase of current legal research materials; costs associated with printing and issuing decisions; employee development and training; and equipment maintenance, repair and replacement.

D. FLRA Workload Projections

While the accurate forecasting of the workload in the three FLRA components is difficult because the cases are initiated by the parties, not the FLRA, government-wide reorganization and downsizing adds a new and uncertain variable to the projection. Such changes have the tendency to increase both the number and complexity of cases. However, based on recent and historical trends, we are projecting an Agency-wide caseload of approximately 13,400 cases.

This number is relatively stable, although we do anticipate that the complexity and novelty of the cases presented to the FLRA will continue to increase. In order to reduce the number of cases that require formal third-party intervention, we project an increased workload for the agency's alternative dispute resolution and labor-management cooperation activities. These activities are directed towards reducing litigation (and its attendant costs) by helping the parties resolve their own disputes without third-party assistance. In fiscal year 1997, we expect to conduct over 530 such sessions to over 23,000 managers and union representatives nationwide.

Our efforts over the last several years in this area have intensified. As discussed above, in our Budget Submission, and in the FLRA's April 23, 1996 testimony, there is mounting evidence that these efforts are beginning to show results. We are, indeed, achieving a great "bang for the buck"—expending a relatively small amount of resources to achieve substantial savings for the rest of government, and ultimately, the American taxpayer.

CONCLUSION

Our direct customers—federal agencies, unions and the employees they represent—are in a time of transition. Effective labor-management relations in the Federal service are essential, as Congress recognized when it enacted the Federal Service Labor Management Relations Statute, to the efficient operations of government. The FLRA remains committed to providing the leadership necessary during these crucial times by promoting sound federal labor-management relations which contribute to an effective and efficient government. The fiscal year 1997 budget request for the FLRA will enable us to perform this leadership role and provide an effective labor relations program that meets the needs of our direct customers and the public they serve.

We look forward to working with you and the Members of the Committee and welcome the opportunity to answer any questions you and the Members of the Committee may have.

OFFICE OF GOVERNMENT ETHICS

Prepared Statement of Stephen D. Potts, Director

Mr. Chairman, and members of the subcommittee: Thank you for the opportunity to present the Administration's request for appropriations for the Office of Government Ethics (OGE) for fiscal year 1997.

The request for the Office of Government Ethics in the President's budget is for an appropriation of $8,078,000 and 87 full time equivalent staff years for fiscal year 1997.

These funds are extremely important to the Office of Government Ethics to support the activities of the Office. We are engaged in several important events in fiscal year 1997: new presidential term activities, ethics program reviews, and expanded support for employee ethics training. In addition, OGE is being called upon to pro-

vide more assistance to agency ethics programs faced with major restructuring as a result of resource limitations.

NEW PRESIDENTIAL TERM ACTIVITIES

Regardless of the outcome of the Presidential election, OGE will be:
—reviewing and certifying financial disclosure statements of new Presidential nominees to the U.S. Senate committees considering confirmations;
—reviewing financial disclosure statements and providing guidance to departing employees on their post employment activities;
—providing support services for the Certificates of Divestiture (CD) program and the anticipated increase in requests for CD's as a result of the transition;
—monitoring approximately 200 ethics agreements made with current appointees;
—tracking, collecting, reviewing, and certifying approximately 1,000 financial disclosure statements—required by annual filings and at the termination of appointment;
—providing ethics orientation seminars for new political appointees, including Schedule C appointees and non-career Senior Executive Service appointees and;
—working with transition teams on conflict-of-interest laws and disclosure procedures, if there is a change of President.

For the OGE legal staff, these projects and the increase in workload is in addition to the range of legal services regularly provided to OGE and the executive branch—e.g. providing advice to agencies' ethics officials, coordinating policy with the Department of Justice and providing advice on ethics laws to Independent Counsels.

ETHICS PROGRAM REVIEW ACTIVITIES

With decreasing budgets in Federal agencies, managing agency ethics programs is increasingly difficult. Therefore, in the coming year the program reviews will focus on helping agencies to continue operating effective ethics programs within the limitations imposed by diminished resources.

In fiscal year 1997 we intend to:
—conduct ethics program reviews in 60 Federal agencies and assist them in developing better ethics programs;
—continue doing the single-issue reviews to determine whether OGE and agency policies are effectively meeting objectives;
—conduct six-month follow-up reviews in agencies to insure that recommendations for action are being implemented in a timely manner;
—assess the impact of budget cuts on agencies' support for ethics programs.

STRENGTHEN OGE ASSISTANCE TO ETHICS TRAINING

An important part of a successful, overall executive branch ethics program is a strong education component which reminds current employees of their ethical responsibilities, provides new information as necessary and explains ethics requirements to new employees. In fiscal year 1997 OGE education efforts will be focusing on the following program areas:
—assess the viability of computer applications to meeting training requirements and disseminating information;
—conduct an analysis of the current and projected training needs within the ethics community;
—conduct the annual ethics conference and publish the Ethics Newsgram strengthening OGE's links to the extended executive branch ethics community;
—complete production of two videotapes begun in fiscal year 1996;
—provide annual training to employees of 200 very small agencies which lack the expertise to conduct employee training in this area;
—maximize effective use of resources by OGE providing courses to ethics practitioners, trainers, counselors, disclosure reviewers and enforcement officials who can then train others;
—coordinate executive branch activities through the Ethics Training Partnerships program;
—use focus groups to assess overall ethics training effectiveness;
—work closely with the ethics community to determine their needs and to provide extra support where it is needed within OGE's resource capability.

The President's request for OGE for fiscal year 1997 ($8.1 million) is less than the request for fiscal year 1996 ($8.3 million) but more than the appropriations OGE received for fiscal year 1996 ($7.7). The request for FTE this year is 87, the lowest FTE request since fiscal year 1992.

These funds will continue to support a decentralized executive branch ethics program which implements the laws providing for public and confidential financial dis-

closure and conflict of interest and post-employment restrictions. OGE continues to provide guidance to agencies and employees on the executive branch Standards of Conduct and leadership to this community on ethics policies and issues.

While the differences in the amounts requested and appropriated are small in terms of the overall budget process, they are significant sums to a small agency like OGE. We have increased our productivity by extensive and creative use of computers and technology and by hiring and retaining the best staff possible. As employees become more experienced, they are able to be more productive.

The fiscal year 1997 request has been carefully analyzed. It is a very realistic figure for what the Office of Government Ethics needs to accomplish its mission.

If you have any questions regarding the President's request or the activities of the agency, we will be happy to respond promptly.

U.S. OFFICE OF SPECIAL COUNSEL

Prepared Statement of Kathleen Day Koch, Special Counsel

Thank you for the opportunity to submit this testimony for the record to discuss the fiscal year 1997 budget request for the Office of Special Counsel (OSC).

Consistent with the administration's budget request, the OSC is requesting budget authority for fiscal year 1997 in the amount of $8,311,000 with 99 full-time equivalent (FTE) positions. This represents an increase of $394,523 over our fiscal year 1996 authorization.

The Office of the Special Counsel was established on January 1, 1979, by Reorganization Plan Number 2 of 1978. The Civil Service Reform Act (CSRA) of 1978, which came into effect on January 11, 1979, enlarged its functions and powers. The Office operated as the autonomous investigative and prosecutorial arm of the Merit Systems Protection Board (MSPB or Board) until 1989. In March of 1989, the Congress passed the Whistleblower Protection Act (WPA) of 1989, which became effective on July 9, 1989. The WPA established the Office of the Special Counsel as an independent agency within the executive branch, separate from the MSPB, and renamed it the Office of Special Counsel (OSC). Under the new law, the OSC kept its basic investigative and prosecutorial functions and its role in litigating cases before the MSPB.

The WPA substantially amended the CSRA to enhance protections against reprisal for those employees who disclose wrongdoing in the Federal Government, and the ability of the OSC to enforce those protections. Under the CSRA, as amended, the principal responsibilities of the OSC continue to be:

—the investigation of allegations of prohibited personnel practices defined by law at 5 U.S.C. § 2302(b),[1] and other activities prohibited by Civil Service law, rule or regulation, and the initiation of corrective and disciplinary actions when warranted;

—the interpretation and enforcement of the Hatch Act provisions on political activity in chapters 15 and 73; and

—the provision of a secure channel through which Federal employees may make disclosures of information evidencing violations of law, rule or regulation, gross waste of funds, gross mismanagement, abuse of authority, or a substantial and specific danger to public health or safety, without disclosure of the employee's identity (except with the employee's consent) and without fear of retaliation.

In furtherance of the merit systems principles specified in the CSRA, the OSC's principal responsibility has been and continues to be the receipt and investigation of complaints of alleged prohibited personnel practices, especially reprisal for whistleblowing. Although allegations of reprisal for whistleblowing are relatively few compared to the number of Federal civilian employees, the OSC regards any reprisal for whistleblowing as unacceptable. Accordingly, the OSC's priorities are to:

—treat allegations of reprisal for whistleblowing as its highest priority;

—intensively review allegations of reprisal for whistleblowing for any feasible remedial or preventive action, whether by means of stays, corrective actions, or disciplinary actions; and

—use every opportunity to make a public record of the OSC's aggressive pursuit of corrective action (especially in whistleblower reprisal cases), both to encourage other whistleblowers, and to affirm the emphasis given to corrective actions by the OSC.

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[1] All statutory references to chapters and sections that follow in this report will be to Title 5 of the United States Code, unless otherwise indicated.

I am happy to report that fiscal year 1995 was another record-setting year for OSC. For the second year in a row, we obtained a record number of corrective, disciplinary and other favorable actions on behalf of Federal employees who sought the assistance of OSC. In fact, in fiscal year 1995 we negotiated 175 favorable actions in prohibited personnel practices and Hatch Act cases, which represents more than a 28 percent increase over the 136 favorable actions obtained in fiscal year 1994. Of particular importance, in fiscal year 1995, 120 favorable actions, or 68.5 percent of the total, were obtained in whistleblower reprisal cases. Overall in fiscal year 1995, there were more than 5,800 instances in which the assistance or action of OSC was sought by Federal employees and other persons.

These accomplishments were the direct result of changes that have been made in the way we approach our work. Of particular note, in fiscal year 1994, OSC reported the trial of a pilot project that was based upon the use of interdisciplinary teams of investigators and attorneys to handle cases from the inception of a full field investigation through final disposition of a case. This project exceeded our expectations and resulted in the past two years of all time high levels of favorable actions. Accordingly, we have implemented this approach to cases on a permanent basis.

OSC also issued a record-setting 2,821 Hatch Act advisory opinions (both written and oral) to employees who sought advice. This is the only area of OSC's activities where it is able to issue advisory opinions, and it is particularly valuable for two reasons. First, because of the significant revisions to the Hatch Act in 1993, which generally broadened the scope of lawful political activities for Federal employees, there is much uncertainty in the Federal community as to which activities are permissible and which are impermissible. Second, individuals who obtain an advisory opinion from OSC which finds that proposed political activity is lawful, are protected from any enforcement activities should someone subsequently challenge this activity before OSC.

Finally, OSC has taken several steps to help educate and inform the Federal work force. For example, in fiscal year 1995, we published an informational booklet of materials for agencies to use to educate their employees about the role of OSC and employee rights and remedies. This booklet has been very well received by the Federal community. OSC has also established a home page on the worldwide web, which includes a wide range of information, publications, reference materials and forms relating to OSC's programs and operations.

I am very proud of OSC's employees and of the fact that we have achieved these accomplishments despite reduced funding and a smaller work force. We are committed to doing all that is necessary, including developing and using new and more effective methods of operation, to continue to serve individuals who seek our assistance.

While OSC has achieved significant accomplishments over the past several years, increased resources will be necessary if we are to continue to obtain corrective and disciplinary actions at high levels and maintain our quality of service. I say this for several reasons. First, the impact of OSC's Reauthorization Act, Public Law 103–424, is just being felt in the Federal work force. That act created two new personnel actions and it expanded OSC's protections to approximately 80,000 medical employees in the Department of Veterans Affairs and whistleblower protections to employees of government corporations defined at 31 U.S.C. § 9101. Those Federal corporations employ approximately 82,000 employees. In addition, the act requires agency heads to inform their employees about their rights and remedies under 5 U.S.C., Chapters 12 and 23. As a result, many Federal employees are just now beginning to understand their rights and the protections available through OSC. Indeed, in the past year we have seen prohibited personnel practice complaints received at a very high rate and, we have received record numbers of disclosures of wrongdoing through OSC's disclosure unit.

It must also be considered that calendar year 1996 is an election year at the national, State and local levels. In fact, this will be the first national election since the Hatch amendments of 1993 were signed into law. We anticipate significant increases in the number of inquiries from Government employees and in the number of advisory opinions we issue and investigations we undertake in the Hatch Act arena, as Federal employees begin to participate in the election process. The workload associated with reviewing and investigating, and, if necessary, prosecuting Hatch Act matters received in this fiscal year will carry over into fiscal year 1997.

In summary, our workload has continued to rise and the funds we are requesting are necessary to meet our statutory obligations. My goal is to continue to maintain record-breaking accomplishments on behalf of the Federal employees, and I believe our requested budget will enable OSC to do this.

U.S. Office of Special Counsel Budget Justification

Budget request	$8,311,000
Increase over fiscal year 1996	394,523

Justification for Increase:

—Impact of OSC's reauthorization is just being felt in the federal work force. The Act created two new personnel actions and it expanded OSC's protections to approximately 80,000 medical employees in the Department of Veterans Affairs.

—Impact of OSC's reauthorization is also being felt through the inclusion of approximately 82,000 employees of certain government corporations into Whistleblower protection.

—The Reauthorization Act also requires agency heads to inform their employees about their rights and remedies. As a result, many federal employees are just now beginning to understand their rights and protections available through OSC.

—OSC's Disclosure Unit has received a record number of disclosures of wrongdoing within the government.

—This is the first National election since the Hatch Act Amendments of 1993 were signed into law. We anticipate significant increases in the number of inquiries from government employees and in the number of advisory opinions we issue and investigations we undertake in the Hatch Act arena, as federal employees begin to participate in the election process.

—Workload has continued to rise and the funds requested are necessary to meet our statutory obligations.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury, Postal Service, and General Government for inclusion in the record.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for nondepartmental witnesses.]

PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP) thank you for this opportunity to testify concerning appropriations next year for the Tax Counseling for the Elderly (TCE) program.

The Association deeply appreciates the Subcommittee's continued support of Tax Counseling for the Elderly, which is targeted to low and moderate income older Americans. Enacted in 1978, this cost effective initiative improves taxpayer compliance measurably for the Internal Revenue Service (IRS) by helping to ensure that more tax returns are prepared completely and accurately. At the same time, TCE volunteers inform taxpayers about their obligations and assist them in fulfilling their responsibilities. The agency reports that many taxpayers with incomes below the minimum level required file tax returns needlessly each year. This results in unnecessary costs to both the taxpayer and the Federal government. TCE helps prevent such occurrences.

The program has enabled IRS to assist aged minorities more effectively as well as disabled and hard-to-reach taxpayers such as the rural elderly and shut-ins, especially those residing in nursing homes or senior citizen housing. In 1995 TCE sites offered assistance in 25 languages, including American sign language. AARP operates the Tax-Aide Program, which is the largest of the TCE programs.

AARP supports the Administration's recommended $3.7 million freeze for TCE next year. The value of TCE has been amply demonstrated over the years, and is reflected in growing demand for assistance. A report issued three years ago by the General Accounting Office (GAO) indicates that in 1992, TCE accounted for the preparation of more than four times the number of returns prepared at Internal Revenue Service (IRS) walk-in sites. More than 35,000 volunteers are involved in TCE services at approximately 11,000 sites across the country. In addition, the IRS annual Individual Master File (IMF) reported a 97% mathematical accuracy rate for TCE returns in 1994, which was comparable to or higher than those for other categories of preparers. When the program first began, it helped 846,000 elderly taxpayers prepare their tax returns. Currently, over 1.6 million people receive tax counseling annually. We do not have complete data for the current tax season, but we expect TCE to continue to grow in the future. There are several reasons why this is likely to happen.

First, the elderly population is increasing.

Second, the complexities of our tax code, including such provisions as those relating to pension benefits, IRA withdrawals, and one-time exclusion on sale of a primary residence, cause many aged taxpayers particular struggles in computing their tax obligations. Moreover, many aged citizens are not aware of the changes made in our tax laws over the past few years.

Third, the Internal Revenue Service has increasingly turned to TCE programs for assistance, in large part because budgetary constraints have stretched the ability of the agency to respond directly to numerous public inquiries. Volunteers are contributing over 2.8 million hours annually in direct public service to older taxpayers.

TCE volunteers are dedicated to the program and are committed to helping others. The people they assist would otherwise be forced to pay a professional consultant as much as $100 to prepare their tax returns -- an exorbitant cost for anyone living on a low or moderate income.

TCE volunteers are also committed to ensuring that older taxpayers with dependent children or grandchildren are made aware of their eligibility for the earned income tax credit (EITC). Many older low income wage

earners find themselves responsible for providing care for their dependent children or grandchildren. EITC is an important benefit for these individuals.

The TCE program will continue to participate in successful IRS efforts such as the Reduce Unnecessary Filing (RUF) initiative. In 1995 1.8 million taxpayers were advised by the agency that they might not have to file a Federal return. Data indicate that 75% of the RUF letters were sent to taxpayers 61 years of age or older. Many of these older individuals approached TCE sites in order to receive confirmation that they did not need to file a return that year.

Thank you again for this opportunity to comment on appropriations next year for the Tax Counseling for the Elderly program.

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

PREPARED STATEMENT OF JOHN N. STURDIVANT, NATIONAL PRESIDENT

Mr. Chairman and Members of the Subcommittee:

My name is John Sturdivant. I am National President of the American Federation of Government Employees, AFL-CIO. AFGE represents over 700,000 federal and District of Columbia workers nationwide. I appreciate the opportunity to submit this statement to the subcommittee regarding two subjects of concern to our members: federal pay and streamlining employee appeals.

Federal Pay -- General Schedule

Following passage of the Federal Employees Pay Comparability Act of 1990, many thought that pay increases for the federal government's white collar workers would no longer be the subject of intense negotiations between the administration and the Congress. A careful reform of the pay system was accomplished after two years of work by the Democratic-controlled Congress, President Bush, and AFGE and other unions. The pay rates would be based on comparability with those found in the private sector. Salary adjustments would consist of two components: (1) a general increase linked to the Employment Cost Index (ECI) and applicable to the General Schedule, foreign service pay schedules, and pay schedules established under Title 38 for Veterans Health Administration employees, and (2) a General Schedule locality adjustment that would apply only to specific areas of the continental United States where non-federal pay exceeded federal pay by 5 percent or more.

The locality pay portion of the pay adjustment was to be phased in over a nine-year period, so as to cushion the effects on the federal budget of the effort to return federal pay levels to comparability with those in the rest of the economy. FEPCA specified that in 1994 the minimum locality increase be two-tenths of the amount needed to reduce the pay disparity to 5 percent. For each successive year, FEPCA provided that the locality-based increase would be an additional one-tenth of the amount needed to close the gap (on a local basis) to 5 percent. Following this formula would reduce pay disparities to no more than 5 percent not later than the year 2002. This grand compromise left us with the expectation that the pay gap, which numerous studies pegged at about 30 percent, finally would be closed.

Unfortunately, FEPCA's goals were to be ignored from the outset. The record of the administration and successive Congresses raises the question of whether the law will ever be implemented fully.

In his 1994 budget, President Clinton proposed, and Congress accepted, cancellation of the 2.2 percent nationwide (ECI-0.5 percent) increase. The locality portion of the pay increase was implemented, however, and resulted in an average pay increase of 3.95 percent, effective January 1994.

The 1995 General Schedule pay increases were again further reduced from what was called for under the provisions of FEPCA. Under P.L. 103-329, the nationwide increase was reduced from 2.6 to 2.0 percent. The locality adjustment was reduced to 1.09 percent, or approximately one-half of the locality payments called for under FEPCA for 1995.

In 1996, the ECI and locality increase was limited to 2.4 percent, well below the 5.1 percent increase mandated under FEPCA. The President's 1997 budget calls for a 3.0 percent pay increase, which compares to an 8 percent increase called for under the current law.

The result of the past three years of low balling on federal pay increases is that the effort to close the pay gap with the non-federal economy is lagging. Perhaps only one-half of the amount that had been intended by President Bush and the Congressional Republicans and Democrats who supported the legislation has been realized. Failure to fully fund both the nationwide pay increase and the locality increase will lead inevitably to sharply larger pay disparities. If FEPCA's goal of reducing all local disparities between federal and non-federal pay to 5 percent is to be met, then larger increases in 1997 and each year thereafter will be needed, since the previous year's adjustment was less than what it should have been. The well-crafted compromise underpinning FEPCA, i.e., a nine-year phase-in of appropriate locality adjustments intended to close the pay gap, will disintegrate if politics again are allowed to overtake sound compensation policy. Since 1981, federal workers have contributed over $170 billion towards deficit reduction through significant reductions in pay and benefits. The largest share of that reduction has occurred through direct salary depression below what the comparability law had intended.

As agencies continue to downsize, the need to offer competitive compensation packages so as to recruit and retain the highest quality employees becomes even more critical. The mechanisms contained in FEPCA were designed to enable the federal government to compete for applicants in every labor market. They represent a fair, evenhanded approach to balancing the government's need to control its costs and the federal employee's desire to maintain an adequate standard of living.

Congress should resist the short-sighted ways of the past and begin to view the full funding of FEPCA as a sound investment in the future of the federal workforce. The practice of ignoring the terms of FEPCA fuels the cynical view that seeking good faith compromise on issues of public policy is futile, because Congress will always do what is

most politically expedient at the moment. Show the American people that we honor our agreements.

Federal Wage System

The Federal Wage System is the federal government's pay-setting system for workers in crafts and trades occupations, often referred to as "blue collar" workers. The FWS, which was enacted by Congress in 1972, is designed to pay these workers according to the prevailing rates in the private sector of the local economy. The system that was adopted in P.L. 92-392 is sound. It was intended to provide federal blue collar employees with a fair wage and assure that the federal government can attract and retain high quality craft and trade workers.

Unfortunately, the goals of the FWS have largely been honored in the breach. For 17 years, Congress has imposed artificial limitations on pay increases that have nothing to do with private sector pay rates. The comparability provisions of the FWS have been ignored by limiting increases to no more than the same percentage increase paid to employees under the General Schedule, regardless of the percentage actually due under the FWS. These "pay caps" have forced federal blue collar workers to see not only the real value of their pay decline, but also to have their own salaries fall further and further behind the rates paid by private companies. We continue to conduct careful surveys of private sector pay in 142 different wage areas around the country each year. These surveys are models for labor-management cooperation and produce statistically valid information on the rates of pay in the local private economy. However these results are ignored. They are treated as virtually meaningless due to the arbitrary pay caps that have been imposed annually since 1979.

The principle of tying federal pay rates for craft and trade workers to prevailing rates in the local economy has served the federal government well for more than 100 years. The first prevailing rate law was enacted in 1861. The similarity in language between that law and the current statute is remarkable. Then, as now, it was recognized as sound public policy for the federal government's craft and trade pay rates to reflect those paid in the local private sector.

Successive pay caps on the FWS have left the government's blue collar workers lagging behind their private sector counterparts. Under FEPCA, the gaps between federal white collar pay and the rates in the local economy were so large that the costs of closing them had to be spread over nine years. Fortunately, no similar major overhaul of the blue collar pay system is needed to address the pay gap of that workforce. First, the size of the FWS workforce is much smaller than that covered by the General Schedule. According to the Office of Personnel Management, there were only 277,104 employees covered by the FWS as of December 31, 1995, the most recent date for which these data are available. It is noteworthy that this workforce continues to shrink steadily. In 1957, there were almost 750,000 federal blue collar employees, at a time when there were just under a million white collar workers. During the Vietnam War there were over 500,000 craft and trade workers. As recently as July 1993 the number was 333,295. DOD downsizing and contracting out are the main factors in this decline.

Second, FWS pay gaps are much smaller than those in the General Schedule. According to the Federal Salary Council, the average pay gap for the General Schedule pay localities this year was 28 percent. OPM found the average FWS pay gap as of December 31, 1995 to be only 6.3 percent. Two percent of federal blue collar workers have gaps in excess of 15 percent.

The system Congress designed in 1972 to set federal craft and trade wage rates in accordance with locally prevailing rates is sound public policy. AFGE has great confidence in the integrity of this system. The cooperation between management and labor unions in the implementation of the system is a model of partnership that is showing

the way for others in the federal government. Congress should honor this policy and allow the system to resume operation without the imposition of arbitrary pay caps. Let Fiscal Year 1997 be the year that we return to paying prevailing rates.

Streamlining Employee Appeals

It seems to me that any employee-oriented organization, regardless of its particular constituency, would be supportive of the broad, general goal of streamlining employee appeals. This is particularly true in the federal sector, where the fired employee is off the payroll and out the door and the suspended employee serves the suspension long before the appeals procedures run their course. In this context, it is in the employee's interest to have a fair, straightforward, and expeditious appeal process that does not consume the employee and his or her limited resources in years of expensive litigation.

Therefore, streamlining the employee appeals processes is a laudable goal for the subcommittee. Of course, as has been said many times, "the devil is often in the details." Last year this subcommittee directed the Clinton Administration to develop a legislative proposal to merge the Merit Systems Protection Board (MSPB) and Federal Labor Relations Authority (FLRA). The request for the report specifically addressed only the agencies under the Subcommittee's direct jurisdiction -- FLRA and MSPB -- and did not address whether the Equal Employment Opportunity Commission (EEOC), the National Labor Relations Board (NLRB) (which has overlapping jurisdiction issues with the MSPB with respect to Postal Service employees) or other such agencies should be included, or can even be coherently excluded, from a consolidation of appeals fora.

Specifically, AFGE does not support the proposed merger of the FLRA and MSPB. The fact is that for the last 15 years, since the passage of the Civil Service Reform Act (CSRA) and the establishment of both these agencies, there has been a clear, significant, and valid jurisdictional distinction between the cases heard by the two agencies. The MSPB hears individual employee appeals from agency personnel actions. The actions that employees can appeal to the Board include removals and suspensions for misconduct or poor performance, certain RIF actions, and retirement adjudications.

In contrast, the FLRA, unlike the MSPB, is not a "personnel" agency. The FLRA is an agency that adjudicates disputes between agencies and unions, (and between unions and employees) not between agencies and employees. Likewise, with all due respect to the agency, what the MSPB does not know about complex bargaining issues, unit representation issues, negotiations, labor unions, and cooperative labor-relations programs could easily fill volumes.

In reality, the issue in reforming the government's employee appeals processes is not whether two highly dissimilar agencies should be merged so that one fewer agency exists, no matter how dysfunctional the result. The real challenge, in AFGE's opinion, is to cut down on the number of multiple "bites of the same apple" that employees can, or in some cases must, avail themselves of in attempting to process their appeal to finality.

The problem of the multiple steps required to process an appeal concerns primarily the simultaneous and overlapping jurisdiction of the EEOC and MSPB. For example, in a "mixed" case -- by definition, an appeal of an adverse action (or serious discipline) coupled with a claim of discrimination -- an employee can file either an EEO charge, an MSPB appeal, or if he or she is a member of a recognized bargaining unit, a grievance under the negotiated procedure. The problem, as we see it, occurs after the original forum issues its decision. Rather than being "bound" by a final decision of the selected administrative tribunal, employees merely "bounce" over to other administrative tribunals for seemingly endless appeals.

Thus, when critics complain about the confusing and circuitous path that an employee appeal can take as it winds its way to a final decision, they are normally addressing an appeal grounded at least in part in a discrimination defense. With respect to all other employee appeals, at least those brought by bargaining unit employees under their collective bargaining agreement, even the Courts have recognized "[t]he negotiated grievance procedure is much simpler." AFGE Local 2052 v. Reno, 992 F.2d 331, 333 (D.C. Cir. 1993).

Last week the General Accounting Office (GAO) presented testimony on this issue before the subcommittee. While our impression of the GAO statement is that it is not quite clear and is inadequately documented with respect to a number of its criticisms of the current appeals mechanism, they too seem to recognize (at footnote 2 of their statement) that the "collective bargaining processes" are *not* part of the problem. Interestingly, the GAO attempts to point out that the "redress system" provides "federal workers substantially greater protection than private sector employees" (p. 6).

It is obviously true that no private sector enterprise would ever provide its supervisory and managerial workforce with the elaborate, no cost appeals systems or reduction-in-force rights provided federal supervisors and managers via the right to contest any major adverse employment action at no expense before the Merit Systems Protection Board. It is significant to note that MPSB's largest number of appeals involves the arguably quasi-governmental group of postal service supervisors.

GAO blatantly errs, however, if it is purporting to compare the rights of unionized federal employees (the 65% of workers in recognized bargaining units) with unionized private sector workers who can bargain pay, have the right to strike, and can only be removed for "just cause" (a much more stringent standard than, for example, Chapter 43's "substantial evidence" requirement in removal cases based on a federal employee's poor performance). Thus, GAO inaccurately broadly lumps the rights of federal senior executives, managers, supervisors, and their Postal Service counterparts, into the same "private sector" analysis of rank-and-file federal workers.

Under the CSRA, the negotiated grievance procedure prescribed in a collective bargaining agreement is generally the exclusive path to redress for a rank-and-file federal employee with a grievance. 5 U.S.C. § 7121(a). Exceptions to the general rule, however, are found in subsection (d) of section 7121. Subsection (d) covers both "mixed" discrimination cases and non-adverse action discrimination cases.

Discrimination in Non-Adverse Action Cases

Subsection (d) requires an employee with a discrimination case that does not involve an adverse (or serious discipline) action to make a binding choice between pursuing the matter "under the statutory procedure or the negotiated procedure but not both." 5 U.S.C. § 7121(d). The statutory procedure for such cases is outlined in 42 U.S.C. § 2000e-16 and the EEOC's accompanying regulations. If the employee wishes to pursue the statutory path, he must first consult an Equal Employment Opportunity (EEO) counselor at the employing agency within 45 calendar days of the date of the alleged discriminatory event. 29 C.F.R. § 1614.105. The EEO counselor has 30 days to informally resolve the matter or to notify the employee of his right to file a formal complaint. *Id.* Under EEOC regulations, the employee is not deemed to have chosen the statutory path until he files the formal complaint. 29 C.F.R. § 1614.301.

Having filed a formal complaint under the statutory procedure, the employee may appeal the agency's final decision in one of two ways. He may bypass further administrative procedures and seek *de novo* review in district court within 30 days after receiving notice of the agency's final decision. 42 U.S.C. § 20003-16(c). Alternatively, he may appeal an adverse decision to the EEOC. 29 C.F.R. § 1614.401. If the employee

objects to the EEOC's final decision, he may seek *de novo* review in district court. 42 U.S.C. § 2000e-16(c).

If the employee selects the grievance/arbitration route for his non-adverse action discrimination case, the appeal from a final arbitration award differs. Rather than proceeding directly into court, the employee must exhaust another administrative appeal by proceeding first to the EEOC. The absurdity of requiring an employee to file a costly and duplicative administrative appeal with the EEOC from an arbitration decision prior to proceeding with *de novo* judicial review was the subject of a court case in Johnson v. Peterson, 996 F.2d 397 (D.C. Cir. 1993). In Johnson, AFGE argued that the passage of the CSRA was intended to streamline the many various administrative appeals. However, the U.S. Attorney's Office was able to convince the U.S. Court of Appeals for the D.C. Circuit that Congress intended in 5 U.S.C. § 7121(d) that employees exhaust an EEOC appeal after completing the arbitration process. Johnson, 996 F.2d at 399-400.

Mixed Cases

For a "mixed case" (appeals of removals or suspensions greater than 14 days coupled with a claim of discrimination), the CSRA establishes a special, even more complex procedure. See 5 U.S.C. § 7702(a)(1). The procedure requires the aggrieved employee to make an initial binding choice. He may seek relief either under a statutory procedure (MSPB or EEOC) or under the negotiated grievance procedure, but not under both. 5 U.S.C. § 7121(d).

Under the statutory procedure, the employee may first raise the complaint with his employing agency which has 120 days to reach a decision. 5 U.S.C. § 7702(a)(2). If the agency decides against the employee, the employee may either appeal to the MSPB or seek direct judicial review. 5 U.S.C. § 7702(a). If an employee appeals to the MSPB, it must reach a decision within 120 days, at the end of which period the employee may either proceed directly to court or seek further administrative review. 5 U.S.C. § 7702(a)(3). An employee who wishes to follow the administrative route may appeal the MSPB's decision to the EEOC which, under the statute, has 30 days to decide whether to hear the case. 5 U.S.C. § 7702(b)(1).

If the EEOC rejects the case or if it accepts the case and agrees with the MSPB's decision, the employee may then proceed to court. 5 U.S.C. § 7702(b)(5)(A). If the EEOC accepts the case but disagrees with the MSPB, however, it must remand the case to the MSPB for further consideration. 5 U.S.C. §§ 7702(b)(3)(B), (b)(5)(B). Upon reconsidering the case, the MSPB issues an opinion that either agrees with the EEOC or rejects the EEOC's findings. If the MSPB agrees with the EEOC, the employee may seek judicial review. 5 U.S.C. § 7702(c). If the MSPB rejects the EEOC's findings, however, the statute calls for the creation of a special panel to make a final decision. 5 U.S.C. § 7702(d)(1). The special panel's final decision is then subject to judicial review. 5 U.S.C. § 7702(d)(2)(A).

In AFGE Local 2052 v. Reno, just like in the Johnson case cited above, the government via the U.S. Attorney's Office was once again able to convince the U.S. Court of Appeals, D.C. Circuit, over AFGE's strenuous objections, that an appellant had to file another costly and duplicative administrative appeal with the MSPB prior to seeking judicial review. AFGE Local 2052 involved a "mixed case" brought under the negotiated grievance procedure and heard by an arbitrator. When all was said and done in AFGE Local 2052, yet another step was added to the processing of an employee appeal at the Government's successful urging and over this Union's objection.

To rectify the extraordinary delays and procedural confusion which characterize the processing of mixed cases, AFGE supported H.R. 2721, The Federal Employee Fairness Act of 1993, a bill before the 103rd Congress. That bill, among other reforms, permitted employees to choose the forum (MSPB, EEOC, or arbitration) to decide all issues in

accordance with established case law. The hopelessly complex and lengthy appeal routes of our current system, which splits jurisdiction and provides overlapping review, was rooted in an uncertainty over how well the newly created institutions would do their jobs, and a mistrust of the ability of the EEOC and the MSPB to decide matters outside their own jurisdiction. Fortunately, these concerns have proven to be largely misplaced, and experience has shown that employees may properly select a single, appropriate forum in which to pursue their discrimination claims for a particular case, and bring to an end the labyrinthine process that currently exists.

Therefore, AFGE and others urged in the prior proposed bill that each adjudicatory agency have the authority to issue final and binding decisions. The Administration's position, however, as reflected in its proposal discussed in last week's subcommittee hearing, is to eliminate completely any EEOC involvement in civil rights appeals from the most serious disciplinary cases -- removals and suspensions of more than 14 days. This proposal makes no sense, and could ultimately lead to two sets of civil rights analysis and case law: one from the MSPB and the other from the one federal agency entrusted to interpret the nation's civil rights laws. The simple solution to this problem is not to eliminate EEOC from the process, but instead to empower EEOC to issue a final, binding decision on any complaint alleging discrimination, permit the employee to select the forum (MSPB, EEOC, or arbitration), and eliminate any post-decision cross-appeals.

I urge the subcommittee to read both Johnson and AFGE Local 2052 should it begin to waiver from its streamlining mission. In particular, please note the big pat on the back the Court gives itself in AFGE Local 2052 for being able to grasp "the complex yet ultimately ascertainable procedural scheme that emerges from the language of the CSRA." Indeed, the Court appears to actually take solace from the fact that there are six different administrative stages prior to a final decision in the processing of a mixed case that provide employees with an opportunity to go directly to court with their appeal. AFGE Local 2052, 992 F.2d at 336.

Let me conclude my statement by emphasizing that the subcommittee should direct its streamlining efforts: (1) away from the proposals to consolidate the FLRA and MSPB -- two agencies with little or no overlap of jurisdiction and wholly separate statutory missions; and (2) toward the heart of the confusion -- the overlapping jurisdiction of the MSPB and EEOC, where discrimination cases languish for years, and where employees get numerous bites of the same apple. Once an employee and an agency get wrapped up in a mixed case, it may be years before they see the light of day. Mixed cases are the black holes of employee appeals.

A first step in the right direction would be to revisit the Court's decisions in Johnson and AFGE Local 2052 and expressly eliminate any layer of cross-appeal that requires employees to appeal adverse arbitration decisions to the EEOC or MSPB prior to seeking what is, in any event, a *de novo* judicial review. Similarly, employees who select the statutory forum instead of the grievance forum should expect finality in their administrative appeal to MSPB or EEOC, respectively, while again preserving the opportunity to seek *de novo* judicial review.

AMERICAN TELEPHONE & TELEGRAPH CO.

PREPARED STATEMENT OF RICHARD J. LOMBARDI, PRESIDENT, AT&T GOVERNMENT MARKETS

Chairman Shelby and Members of the Committee:

My name is Richard J. Lombardi, and I am President of AT&T Government Markets. AT&T appreciates the opportunity to discuss with this Subcommittee the

continuing accomplishments of the FTS2000 program, and the fiscal and policy implications of that performance.

FTS2000 was born of a bi-partisan effort between Congress and the Executive Branch to substantially upgrade and economize the Federal Government's communication services infrastructure. Competitively awarded in December 1988, FTS2000 is a dual-sourced program awarded by President Reagan's Administration, but with the benefits to the Government user and to taxpayers actually realized under the Administrations of Presidents Bush and Clinton as the program has been fully implemented.

FTS2000 was begun as a Government reform initiative and the results have proven the wisdom of the innovative strategy which created it. Vice President Gore recently cited FTS2000 as "an outstanding example of how federal government services can work better and cost less." On April 18, GSA's Acting Administrator David Barram testified before this Subcommittee that "overall cost under FTS2000 during the past seven years have been reduced by 80%, saving nearly $ 5Billion." We at AT&T are proud of this unparalleled track record of performance and look forward to continuing to serve the needs of the federal agencies.

In 1987, there was substantial debate about what the FTS2000 program ought to be, and the final decisions that were made then on the Government's acquisition strategy are directly responsible for the results which have been achieved. Therefore, it is worth briefly revisiting the basic elements of that original FTS2000 acquisition strategy.

The design concept provided, first and foremost, for competitively establishing multiple sources of supply for an integrated, value-added bundle of communications services. This organizing principle was matched with a design concept that the communications services to be provided to the users were always to remain state-of-the-art and never become obsolete. But, in the final analysis, the fundamental principle and economic engine which has driven the success of FTS2000 has been the Congressional insistence on mandatory use by Government agencies.

Legislative language mandating FTS2000 use has been enacted on a bipartisan basis every year since the program started in FY1988 as a means to assure program use at levels that trigger the best price and that assure continued, consistent technological refreshment for the government use. President Clinton has again included a statutory provision for mandatory use in his FY97 Budget request, and we believe Congress should continue to include language in the Appropriations Act that assures mandatory use for FY97 and through the balance of the contract life.

Background

GSA competitively awarded the FTS2000 contracts to AT&T and Sprint in December 1988, to replace the Government's outdated FTS system. The old FTS system was managed and integrated by the Government itself, and services were provided by 17 different communications service vendors. At the end of the old FTS program, the technology was antiquated and its prices were far above market equivalents. Agencies "bailed out" of the system and plans were on the drawing boards for more than 200 separate federal networks.

Noteworthy is the fact that the old system ran without a specific legislative requirement for mandatory use, and it was simply authorized under the broad language of

the Brooks Act. FTS2000 came into existence as a reform initiative expressly to correct the errors of the past; the requirement for mandatory use and the innovative structure of the FTS2000 program made the reform effort successful. The new FTS2000 program was not only dual sourced, but required two price and service recompetitions between the winning contractors during the life of the program. In addition, FTS2000 maintained contract price caps which kept program prices below commercial equivalents. Indeed, under the contracts, prices may not increase.

The origin of mandatory use lay in the unanimous concerns of the government and the vendors bidding on the FTS2000 contracts. Vendors felt that the 60/40 traffic split, with periodic recompetition, seriously reduced the meaningful business opportunity. For this reason, the procurement was made mandatory for use by all agencies as a means of ensuring a sufficient program size to make the substantial private sector investment required by the Government worthwhile for competitors and to justify the substantial risks of the program. Congress, with the support of several Administrations, chose the statutory provision for mandatory use as the tool to ensure aggregated government usage and meaningful business commitment in order to get and keep the best possible deal for the Government. From the outset, Congress determined that legislation was necessary because contract language alone simply set forth the obligations of the parties and failed to ensure that GSA could actually aggregate the Government's requirements and manage the program in a meaningful fashion on behalf of the Government. Mandatory use was also viewed at the time by Congress as a necessary management policy to avoid waste, duplication and incompatibility across the Government as a whole.

Since 1989, Congress has included this mandatory use policy in the annual appropriations act for Treasury, Postal Service and General Government.

FTS2000 Prices Well Below Commercial Rates

In 1993, the legislative provision on mandatory use was modified to require the Administrator of GSA to make an affirmative finding that FTS2000 prices allow the government to satisfy its requirement in a cost effective manner. Each year since, GSA has conducted an extensive analysis of FTS2000 pricing and has provided a written report to Congress analyzing FTS2000 pricing which confirms the cost effectiveness of the FTS2000 program. In fact, GSA's 1996 report stated that:

> "the FTS2000 program allows the Government to satisfy its requirements in a cost effective manner since lower commercial prices do not exist for the aggregate of the government's telecommunications requirements under the FTS2000 contracts. Further, any consideration given to Unique Government Requirements (UGR) provides an additional measure of cost effectiveness when compared to the commercial equivalent services." [1]

The attachment to my statement contains a summary of recent studies and reports which also confirm FTS2000 savings and cost-effectiveness.

In response to the Government's business commitment for the final three contract years (December 1995 - December 1998), the second price and service recompetition was held in 1995. Based on the continuation of mandatory use, rates were cut to federal agencies by more than a third, saving taxpayers an additional $200 million a year. Roger W. Johnson, the Administrator of the General Administration, said of this result:

> "savings of this magnitude and the reduced prices we have achieved are unprecedented in the telecommunications market place. We can all be proud of these results, which demonstrate what federal workers can accomplish when they

[1] GSA 1996 Report to Congress on the Cost Effectiveness of the FTS2000 Program.

focus on better management practices and work in partnership with our customers. This program is truly a government success story."

AT&T competitively won the Year 7 PR/SR. We did so by offering the best prices, the best solution, and the best services based on our good faith reliance on the business offered by GSA.

The Legislative Mandatory Use Provision Assures Scored Savings and The Government's Contract Commitment

The FTS2000 program is designed to ensure that the long distance traffic of federal agencies are met with the best prices available, regardless of location or individual agency traffic volume. In fact, it is only through the aggregation of traffic volumes across the government that the smaller federal agencies, in all locations, are able to obtain the needed services and have the advantage of sharing the financial benefits that GSA has been able to negotiate Government-wide.

During last year's committee consideration of the bill, there was discussion about whether the FTS2000 mandatory use language in the appropriations law was duplicative of the stand alone Brooks Act. Ultimately, Congress concluded that the requirement for the statutory requirement for mandatory use for federal agencies was not duplicative of the Brooks Act, the FTS2000 contract itself, or even the FIRMR regulatory provisions.

As the committee knows, the Federal Acquisition Reform Act (FARA) enacted in February completely repealed the Brooks Act. Although FARA provides for certain OMB control of acquisitions generally, there is no parallel enforcement mechanism provided. Under these circumstances, the retention of statutory mandatory use language

is even more critical now than in previous years so as to assure continuity and the cost-effectiveness of the FTS2000 program.

Conclusion: Extend Legislative Mandatory Use For the Balance of the Program

The FTS2000 program has achieved savings for the government that are virtually unparalleled in private industry. In so doing, the program has kept the Government up to date with technology and service enhancements and provides a seemless communications infrastructure to carry the Government into the next century. These achievements are all rooted in the solid business commitment of the Government by assuring continued mandatory use of the system by federal agencies over a long term program life. For the savings to be achieved and scored well into the future, the Government should retain this mandatory use policy for the life of the FTS2000 program.

Exhibit I

RECENT STUDIES AND REPORTS CONFIRMS FTS2000 SAVINGS

1. As set forth by the FTS2000 contracts, in 1992 the General Services Administration (GSA) held the first of two Price recompetition/Service Reallocations (PR/SR) between the two winning vendors who had the opportunity to gain 40% of the FTS2000 revenues of the other. The recompetition resulted in "price decreases of up to 30 percent"[1] and savings over the 10 year term of the program "of almost $3 billion."[2]

2. Chairman Glenn of the Senate's Governmental Affairs Committee asked the General Accounting Office to review GSA's conduct of this price recompeition. GAO concluded that:

> "PR/SR reduced price by about $450 million over the final 6 years of the contracts. Further these new prices were generally below the lowest known commercial rates at the time of PR/SR."[3]

3. To ensure that prices obtained in this 1992 recompetition were lower than commercial prices, a committee of the FTS2000 Interagency Management Council (IMC) composed of user agencies compared the recompetition prices with commercial prices. This comparison was used by GSA in concluding that FTS2000 prices were below the lowest known commercial prices.[4]

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1 The GSA Report to Congress on the Cost Effectiveness of the FTS2000 Program (the GSA Cost Effectiveness Report), February 1993, page 1.

2 Letter to the Honorable John Conyers, Jr., Chairman of the Committee on Government Operations, House of Representatives from Richard G. Austin, Administrator for General Services, announcing the results of the PR/SR, October 5, 1992.

3 FTS2000: GSA's Price Redetermination Yields a Reasonable Decision and Lower Prices, GAO/IMTEC-93-22, March 1993, page 2.

4 The GSA Cost Effectiveness Report, page 4.

4. To enable it to make the report to Congress required in the FY93 TPO Appropriation whether FTS2000 "was producing prices that allow the Government to satisfy its requirements for such procurement in the most cost-effective manner," GSA and IMC obtained a price comparison from Snavely, King & Associates (SK&A) and the Institute for Defense Analysis (IDA). The SK&A Analysis was the other basis upon which the IMC and GSA concluded that -- "FTS2000 prices in aggregate, are at least as good as the best equivalent commercial prices without considering the value of unique government

requirements. When the value of unique government requirements (as defined in the study) is factored in, FTS2000 is significantly less expensive."[5]

5. In making its 1994 Report to Congress on the Cost Effectiveness of FTS2000, GSA concluded that:

> "The program is stable providing excellent service at prices lower than prices for equivalent commercial services. Therefore, GSA has determined that the FTS2000 procurement is producing prices that allow the government to satisfy its requirements for such procurement in the most cost effective manner."[6]

6. The IMC also undertook a review of the management of the FTS2000 program by GSA and concluded that the "program is an unqualified success.[7]

7 The House Government Operations Committee issued a 235 page Report on the FTS2000 program and concluded that "FTS2000 has been a success story in Federal procurement, and has been and will continue to be a "good deal" for the taxpayers and for Federal employees."[8]

8. In making its 1995 Report to Congress on the Cost Effectiveness of FTS2000, GSA concluded that:

> "The FTS2000 PR/SR program is significantly less expensive (13.0 percent or $6.6 million/month) than the lowest commercial equivalent offerings. When PAPCAP methodology is applied by service and speed for each network, the resulting price adjustments result in the FTS2000 program being approximately 16.3 percent less expensive than commercial equivalent offerings.[9]

9. In its GSA News Release of December 1, 1995 GSA stated:

> "Bob Woods, commissioner of GSA's FTS, said...during the first recompetition in 1992, both FTS2000 contractors proposed reduced prices resulting in a draw, but nonetheless saved the government over $450 million. Since 1988, overall costs under the FTS2000 program have been reduced by about 80% saving nearly $5 billion over the old long-distance program."
>
> Woods said, "Today we have locked in some of the lowest prices anyone has seen for long distance services by leveraging the government's combined business needs in the marketplace. Anyone who has questioned the merits of using contracts which tap commercial market forces should be a believer now! It works! We have the low prices to prove it."
>
> Interagency Management Council Chairwoman Sandy Bates expressed her support for the results. She said that the Social Security Administration will save more than $75 million with the new prices, a drop of over 35% in their long distance bill, and long distance charges for the Department of Defense will be reduced by 33% saving over $100 million.
>
> "This is a great success for the agencies and for the taxpayers," Bates said. "Not only have we saved money on the existing contracts, but we also have positioned ourselves very well for the next generation of contracts to follow FTS2000. These prices will be a great benchmark for the future."[10]

10. The President recommended that Congress continue the statutory requirement for agencies to use FTS2000 services in the TPO Appropriations Act for 1997 with the assurance that the prices continue to be the most cost-effective.[11]

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5 Id., page i
6 Id., page 12.
7 N/A
8 FTS2000: Management Reforms and Intensive Congressional Oversight Ensure Savings of $500 Million for the Taxpayers. Thirty-Second Report by the Committee on Government Operations, House Report 102-1056, 102d Congress, 2d Session, October 29, 1992, page 2.
9 Op. cit., GSA 1995 Report to Congress.
10 GSA News Release: GSA's Common Sense Management Cuts FTS2000 Rates and Saves Taxpayers $200 Million a Year, GSA #9295, December 1, 1995, page 2.
11 Budget of the United States Government. Fiscal Year 1997, Title VI-General Provisions Section 619.

Exhibit II

FY97 TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT APPROPRIATIONS ACT PROPOSED FTS2000 MANDATORY USE LEGISLATIVE LANGUAGE

Title VI - General Provisions, Page II, Sec 619, Appendix, Budget of the United States Government, Fiscal Year 1997

Proposed

Sec. [629] 619. (a) None of the funds appropriated by this or any other Act may be expended by any Federal Agency **as defined in Section 3(b) of Federal Property and Administrative Services Act** to procure any product or service ~~subject to section 5124 of Public Law 104-106 and that will be~~ available under the procurement by the Administrator of General Services known as "FTS2000" unless—

(1) such product or service is procured by the Administrator of General Services as part of the procurement known as "FTS2000"; or

(2) that agency establishes to the satisfaction of the Administrator of General Services that—

(A) that agency's requirements for such procurement are unique and cannot be satisfied by property and service procured by the Administrator of General Services as part of the procurement known as "FTS2000"; and

(B) the agency procurement, pursuant to such delegation, would be cost-effective and would not adversely affect the cost-effectiveness of the FTS2000 procurement.

(b) After ~~July 31, [1996] 1997~~ **December 1998** subsection (a) shall apply only if the Administrator of General Services has reported that the FTS2000 procurement is producing prices that allow the Government to satisfy its requirements for such procurement in the most cost-effective manner.

Proposed Changes in Bold

PREPARED STATEMENT OF BERNARD H. BERNE, M.D., PH.D.

SUMMARY OF TESTIMONY

I am a resident of Arlington, Virginia. I serve the Food and Drug Administration (FDA) as a Medical Officer and as a reviewer medical device approval applications. I am submitting this written testimony as a private individual and not as a representative of FDA or of any other organization.

I thank the U.S. Senate for voting in 1995 to rescind the funding for FDA's Montgomery County, Maryland, consolidated facility, which the General Services Administration (GSA) had planned to build near Clarksburg and I-270. The Clarksburg area is a very poor location for a federal headquarters facility.

At the request of an Appropriations Conference Committee, GSA is now evaluating the Naval Surface Warfare Center in White Oak, Maryland, for the major FDA consolidation. However, this site is no better than Clarksburg.

Metrorail is three miles away from the White Oak site. Even during rush hours, buses run infrequently from Metro to the FDA site in the morning. Bus service from the site is just as infrequent in the afternoon. Nearby roads and highways are already among the most congested in the National Capital Region.

GSA and FDA are planning a country club in White Oak's affluent suburbs. FDA's 130-acre campus will have a visitor center and other amenities. Adjacent federal property will contain a golf course and a woodland. Congress must stop this extravaganza.

The Southeast Federal Center in Washington, D.C. is now available for a major federal headquarters. Adjacent to a Metro station and close to the Capitol and to the headquarters of the Department of Health and Human Services, this site appears ideal for FDA's facility.

A recently reaffirmed Executive Order and GSA's own regulations require that federal facilities and federal use of space in urban areas serve to strengthen the nation's cities and make them attractive places to live and work. The Executive Order directs federal agencies such as FDA and GSA to give first consideration to a centralized community business area when filling federal space needs in urban areas. To expedite this, the Order further directs the heads of federal agencies to economize on their use of space.

The Southeast Federal Center is in a city's centralized community business area. The 130-acre White Oak site is far from any such area.

Past statements and actions of Congressional Appropriations Conference Committees concerning the FDA consolidation have conflicted with the Executive Order. Because of these Congressional statements, GSA now refuses to implement the Executive Order and to evaluate the Southeast Federal Center as a possible site for the FDA consolidation.

In order to reverse the economic decline of Washington, D.C., and of many other U.S. cities, Congress needs to support this important Executive Order. The U.S. Congress should take no action that might conflict with the Order.

I therefore ask the Committee on Appropriations of the U.S. Senate to take the following five actions:

1. **Please oppose any appropriation of funds to support an FDA consolidation at the White Oak Naval Surface Warfare Center in Montgomery County, Maryland.**

2. **Please initiate a rescission of all available appropriated funds that have not yet been spent for the Montgomery County consolidation.**

3. **Please redirect $5,000,000 of the rescinded funds to the study of a major FDA consolidation in the District of Columbia, with an initial focus on the Southeast Federal Center and its vicinity.**

4. **Please do not appropriate any funds for the General Services Administration (GSA) to decontaminate, prepare, or acquire any site for any part of the FDA consolidation until a prospectus for the entire consolidation is approved in accordance with the provisions of the Public Buildings Act of 1959.**

5. **Please ask GSA or the General Accounting Office to appraise the value of the White Oak site.**

EXPLANATION OF REQUESTS

1. **Please oppose any appropriation of funds to support an FDA consolidation at the White Oak Naval Surface Warfare Center in Montgomery County, Maryland.**

   The present need for this project is questionable. New FDA buildings in Prince George's County will house those FDA Centers that now contain most or all of the FDA offices and laboratories that are reported to be in poor facilities.

   Many FDA offices, including my own, are in excellent buildings. None of my coworkers complain about their present offices. Nevertheless, we would all relocate to the Montgomery County consolidated facility.

   My coworkers and I rarely need to visit other FDA centers while reviewing medical device applications. The need to consolidate seems small.

   White Oak is three miles from the closest Metrorail station. In contrast, FDA's largest office building is presently only half a mile from a Metro station. FDA will lose many experienced employees if it moves to White Oak.

   The Naval Surface Warfare Center is in an affluent suburban residential neighborhood. The White Oak area does not require federal aid to support its development.

   The Congressional Concurrent Resolution on the Budget for Fiscal Year 1996-2002 assumes a 30% reduction in funds for Federal Buildings construction in its seven year plan to balance the federal budget (Conference Report for H. Con. Res. 67: H. Rept. 104-59, June 26, 1995, p. 84). House and Senate Committees on Appropriations need to address this programmed reduction in discretionary spending.

   President William J. Clinton urged Congress to further reduce spending on federal building projects when he vetoed the first 1995 rescission bill (H.R. 1158). The President does not appear to support costly federal construction projects.

   There is no urgent need for a major FDA consolidation. Congress needs to implement its Budget Resolution and the President's policies by appropriating no new 1997 funds for FDA's Montgomery County consolidation.

2. **Please initiate a rescission of all available appropriated funds that have not yet been spent for the Montgomery County consolidation.**

   The 1995 rescission act (P.L. 104-19) apparently left $14,000,000 available to plan and design the Montgomery County FDA consolidated facility when the act rescinded $228,000,000 for any such project (Testimony of Dr. David Kessler, Commissioner of Food and Drugs, presented to the Subcommittee on Agriculture of the Committee on Appropriations of the U.S. House of Representatives, March 12, 1996).

   FDA and GSA are starting to use these funds to plan an extravagant 130-acre campus at White Oak. According to GSA's March, 1996, Draft Environmental Impact Statement (DEIS) for the Montgomery County consolidation, the White

Oak campus will contain a visitor center and will feature both a woodland and a six hole golf course on adjacent federal property.

FDA can accomplish its mission without a sprawling campus, a golf course, a woodland, or a visitor center. **FDA does not need a country club.**

The 1995 rescission failed to stop this wasteful type of federal planning. A second rescission is therefore required.

3. **Please redirect $5,000,000 of the rescinded funds to the study of a major FDA consolidation in the District of Columbia, with an initial focus on the Southeast Federal Center and its vicinity.**

Rescissions in last year's P.L. 104-19 and P.L. 104-52 removed most or all of the funding for site preparation and construction at the Southeast Federal Center. This federal property is therefore available for the FDA consolidation.

The Southeast Federal Center is adjacent to the Washington, D.C., Navy Yard. It is next to the Navy Yard Metro Station and is only a mile from the Capitol building.

Previous actions and statements by Congressional conference committees on appropriations and rescissions have directed FDA's major consolidation to White Oak. Citing these actions and statements, GSA officials have refused my repeated requests to evaluate the Southeast Federal Center site as an alternative site for the consolidation.

The March 1996 DEIS does not evaluate any sites other than the White Oak Naval Surface Warfare Center. Only Congress or a Federal court can change GSA's direction.

A new National Capital Planning Commission (NCPC) plan has recently designated the Southeast Federal Center as an important site for new offices. NCPC expects this new economic development to "*assist the transformation of the Southeast Federal Center and adjacent Navy Yard into a lively urban waterfront of offices, restaurants, shops and marinas*" ("Extending the Legacy", Plan for Washington's Monumental Core, NCPC, March 1996).

The goal of NCPC's plan is to preserve and enhance Washington's Monumental Core, which is centered at the U.S. Capitol building. An FDA consolidation at the Southeast Federal Center can revitalize a decaying D.C. neighborhood and help achieve NCPC's goal.

The Southeast Federal Center and its nearby depressed commercial area can hold buildings up to 14 stories high. If necessary for the consolidation, GSA can purchase adjacent commercial property at a low cost. The Southeast Federal Center is an ideal site for a large new federal headquarters facility.

The legislation that initiated the FDA consolidation (P.L. 101-635) authorizes only a single consolidated FDA administrative and laboratory facility. Indeed, Senate Report No. 101-242 (Feb. 1, 1990), which accompanied the authorizing legislation, states, "*the FDA needs to be consolidated in a building.*" **P.L. 101-635 did not**

anticipate or authorize a 130-acre FDA campus and two satellite facilities.

FDA does not require a 130-acre campus for its consolidation. Large high-rise buildings can readily house most or all of FDA's offices, laboratories, and ancillary facilities.

Cities throughout the Nation contain many such research and office centers. Over 2000 National Institutes of Health (NIH) research laboratories are located in a single 14-story building that the government constructed in 1981 in Bethesda, Maryland. A single 18-story building in Rockville, Maryland, now houses many of FDA's offices, including the Office of the Commissioner.

Congress and the Secretary of Health and Human Services (HHS) can readily oversee FDA's activities if FDA consolidates at the Southeast Federal Center.
An FDA consolidation at the Southeast Federal Center there would enhance the economies of three jurisdictions (D.C., Maryland, and Virginia). In contrast, a consolidation at White Oak would benefit Maryland at the expense of the District and Virginia.

The median annual household income in the White Oak residential neighborhood exceeds affluent Montgomery County's median at $65,000. Southeast Washington's median household income is much lower. Federally supported economic development is far more critical to Southeast D.C. than to White Oak.

A redirection of planning funds to study sites in the District would place the project in compliance with President Jimmy Carter's Executive Order No. 12072 (August 16, 1978; 43 FR 36869; 3 CFR, 1979 Comp., p. 213: Federal Space Management). President Clinton's administration recently reaffirmed its commitment to the Executive Order and its goals when the Administrator of General Services revised the Executive Order's implementing regulation (Federal Register, Vol. 61, No. 46, March 7, 1996, p. 9110).

Executive Order No. 12072 and its new implementing regulation (41 CFR Part 101-17.205, Location of space) direct the locations of federal facilities in urban areas, including the National Capital Region. The Order requires federal agencies to assure that their use of space and facilities "*shall serve to strengthen the Nation's cities and make them attractive places to live and work. Such federal space shall conserve existing urban resources and encourage the development and redevelopment of cities.*"

The Executive Order and its implementing regulations require GSA and FDA officials to "*economize in their requirements for space*". They require that "*the process for meeting Federal space needs in urban areas shall give first consideration to a centralized community business area and adjacent areas of similar character...*".

41 CFR 101-17.205 states in paragraph (n), that "*These policies shall be applied in the GSA National Capital Region, in conjunction with regional policies established by the National Capital Planning Commission and consistent with the general purposes of the National Capital Planning Act of 1959 (66 Stat. 781) as amended. These policies shall guide the development of strategic plans for the housing of Federal agencies within the National Capital Region*".

GSA and FDA have long disregarded the Executive Order and NCPC's regional policies and recommendations when planning, leasing and constructing federal buildings in the National Capital Region. To help resolve D.C.'s financial crisis, Congress needs to correct this.

A redirection of FDA planning funds to support a study of the Southeast Federal Center and other sites in the District of Columbia would be consistent with the purposes of the National Capital Planning Act and with the policies and recommendations that NCPC has developed to implement it.

A long-standing NCPC policy presently encourages government agencies to redistribute federal jobs in the National Capital Region. This would reverse recent trends and correct a growing imbalance of federal employment in the National Capital Region. **Congress needs to address this in the federal buildings appropriations process.**

In its current Proposed Federal Capital Improvements Program (PFCIP), National Capital Region, Fiscal Years 1997-2001 (April, 1996, p. 9), NCPC reports that the District of Columbia will lose 889 federal employees as a result of the FDA consolidation project. This would accelerate a continuing transfer of federal employment from the District to suburban Maryland.

According to NCPC's PFCIP (p. 10), the District's percentage of the total Federal employment in the National Capital Region has declined from 58.0% in 1969 to 52.4% in 1994. Between 1969 and 1994, the District of Columbia lost 19,000 federal employees, while suburban Maryland gained more than 11,000.

Because of this trend, NCPC's PFCIP (p. 12) has a final recommendation that states, "*The Commission encourages each agency to adhere to the policy in the Federal Employment element of the Comprehensive Plan adopted in 1983 which specifies that the historic relative distribution of Federal employment of approximately 60% in the District of Columbia, and 40% elsewhere in the Region should continue during the next two decades. This policy is used by the Commission to ensure the retention of the historic concentration of Federal employment in the District of Columbia, the seat of the national government.*"

A major FDA facility at the Southeast Federal Center would be consistent with the Executive Order, with the Order's implementing federal regulation, and with NCPC's policies and recommendations. **A facility at White Oak would be inconsistent with all of these.**

FDA now plans to move about 800 federal employees in its Center for Food and Applied Nutrition (CFSAN) from the District of Columbia to a new facility in Prince George's County, Maryland. To reverse the decline of the nation's capital city, Congress must mitigate such relocations by directing the major FDA consolidation to the District.

4. **Please do not appropriate any funds for GSA to decontaminate, prepare, or acquire any site for any part of the FDA consolidation until a prospectus for the entire consolidation is approved in accordance with the provisions of the Public Buildings Act of 1959.**

The Public Buildings Act of 1959 requires the approval of a prospectus for all GSA building projects before funds can be appropriated for construction and site acquisition.

Provisions in the 1992, 1993 and 1995 Treasury, Postal Service, and General Government Appropriations Acts (P.L. 102-141, P.L. 102-393, and P.L. 103-329) permitted GSA to use the funds made available in those Acts for the FDA consolidation and for certain other projects, even though no prospectuses for these projects had been approved. These provisions released GSA from its obligation to comply with the Public Buildings Act of 1959 when planning the early phases of the FDA consolidation.

The 1996 Appropriations Act (P.L. 104-52) contained no such exemptions. A new provision states that appropriated funds shall not be available for construction, repair, alteration, and acquisition project for any project if a prospectus for project has not been approved. The 1997 Appropriations Act should contain this provision.

In 1995, the House debated the need for a prospectus for this project (Congressional Record, July 19, 1995, p. H7200-H7206). Some members of Congress appear to believe that the consolidation's authorizing legislation (P.L. 101-635) exempts the consolidation from the prospectus requirement.

Congress must eliminate this ambiguity and ensure proper congressional oversight. Congress should appropriate no new funds for any phase of any FDA consolidation until a prospectus describing the entire project is approved.

5. **Please ask GSA or the General Accounting Office to appraise the value of the White Oak site.**

   This would prepare the government for a sale of part or all of the Naval Surface Warfare Center and would help Congress evaluate the real cost of an FDA consolidation at White Oak. A sale of the FDA site would support the goal of the naval base closure, which is to help balance the federal budget.

ADDITIONAL INFORMATION

The following observations further support my requests:

1. The government long ago designated its Southeast Federal Center as a site for a new federal facility. However, nothing has been built there yet. An FDA facility would stimulate the revitalization of this D.C. area.

2. As noted above, the National Capital Planning Commission's new 1996 plan for Washington's Monumental Core states in the category of Economic Development, *"Assist the transformation of the Southeast Federal Center and adjacent Navy Yard into a lively urban waterfront of offices, restaurants, shops and marinas"*.

   An FDA consolidation at the Center would help implement this Plan. The government could rent space in the ground floors of FDA's office buildings to operators of shops and restaurants.

3. Unlike White Oak, the Southeast Federal Center is near a Metro station. Development at this site would encourage the use of Metrorail. This would increase the use of the area's financially troubled public transit system and reduce air pollution and traffic congestion.

   If the consolidation occurs at the Southeast Federal Center, many more FDA workers will likely choose to use Metrorail than presently do. This would benefit the Washington Metropolitan Transit Authority (WMATA) and local, state, and federal governments.

   In contrast, an FDA facility at White Oak would encourage the use of private automobiles. The roads near White Oak are already highly congested.

   The sections of I-95 and the Capital Beltway that serve White Oak rank among the most congested highways in the National Capital Region. They are the sites of frequent accidents and traffic jams.

   The White Oak area is principally residential. For this reason, few buses run from Metro stations to the White Oak Naval Surface Warfare Center in the morning and from it in the afternoon. Thus, most FDA employees would find it difficult to use public transportation to commute to and from work at White Oak.

   New public transportation routes are costly. There can be no assurance that bus service will improve if FDA moves to White Oak.

   If FDA consolidates at White Oak, WMATA will lose revenues from FDA employees who now use Metrorail and Metrobuses on a daily basis. Local, state and federal governments will have to pay for this, since WMATA is heavily subsidized.

4. White Oak's distance from Metrorail and from the core of the National Capital Region will induce many employees to work at home under FLEXIPLACE. This will defeat the purpose of the consolidation.

5. The Southeast Federal Center is in a decaying urban commercial area that is in great need of the economic development that the FDA consolidation would bring.

   Southeast Washington is one of the most economically distressed areas of the nation's capital city. As is well known, the District of Columbia is itself in great need of economic development.

   According to a table in the March 1996 DEIS (p. 3-55), the District of Columbia had in 1994 the lowest average household income ($30,727) of nine jurisdictions in the Washington, D.C., Metropolitan Area.

   In contrast, the White Oak site is in an affluent residential neighborhood that is not in great need of economic development. According to a March 29, 1996, Maryland-National Capital Park and Planning Commission staff report on the White Oak DEIS, the neighborhood's median household income exceeds the median income for Montgomery County at $65,000 per year.

According to the Washington Post (April 3, 1996), the White Oak neighborhood already boasts a community swimming pool, tennis courts, and four tot lots. A map in the March 1996 DEIS shows that a neighborhood community center abuts the Naval Surface Warfare Center near the FDA site. The FDA consolidation would add a federally-owned golf course to these amenities.

The DEIS (p. 3-55) states that Montgomery County, Maryland, had in 1994 the second highest average household income ($64,596) of nine listed Washington, D.C. Metropolitan Area jurisdictions. Montgomery County therefore does not appear to be in great need of large federal employment centers that might otherwise be located in the District of Columbia. There is a great economic contrast between Southeast Washington and White Oak. Federal development would serve a far better purpose at the Southeast Federal Center than it would at White Oak.

6. FDA can place its laboratories and offices in compact and efficient 14-story buildings at the Southeast Federal Center. In contrast, its buildings at White Oak would be only five to six stories high.

   FDA's present headquarters are in a 18 story office building (the Parklawn Building in Rockville, MD). The Office of the Commissioner of Food and Drugs is in this building, which is half a mile from the Twinbrook Metro station.

   The National Institutes of Health has a 14 story research laboratory building that was built in 1981 at its Warren Magnuson Clinical Center in Bethesda, Maryland. The National Cancer Institute has some of its nationally-renowned laboratories in the 13th floor of this building, which, according to an NIH brochure, holds 2000 separate laboratories.

   It is therefore likely that FDA can consolidate its laboratories and offices in buildings up to 14 stories high in the Southeast Federal Center. If needed, GSA can purchase additional property nearby at low cost. Neighboring properties do not appear to be in good condition.

7. The Navy Yard Metrorail Station is on Metro's Green Line. The station is only three stops from Maryland's Southern Avenue Metrorail station and only two stops from Virginia's Pentagon Station. An FDA facility at the Southeast Federal Center will therefore benefit the economies of both Maryland and Virginia, as well as the District.

   In contrast, an FDA facility at White Oak would benefit only Maryland. It is too far D.C. and from Virginia to provide any economic benefits to either of these jurisdictions. Instead, it would draw federal employees and associated businesses away from Virginia and D.C.

8. An FDA consolidation at suburban White Oak would violate former President Jimmy Carter's Executive Order No. 12072. It would also violate a federal regulation in 41 CFR 101-17.205 that GSA recently issued to help implement the Order.

   When issuing this new regulation, GSA stated, *"On August 16, 1978, President Carter issued Executive Order 12072, which*

directs Federal agencies to give first consideration to centralized community business areas while filling federal space needs in urban areas. The objective of the Executive Order is that Federal facilities and Federal use of space in urban areas serve to strengthen the Nation's cities and make them attractive places to live and to work. This regulation serves to reaffirm the Administration's commitment to Executive Order 12072 and its goals." (Federal Register, Vol. 61, No. 46, March 7, 1996, p. 9110.)

The Southeast Federal Center is in an economically depressed centralized community business area in the city of Washington D.C. This area's neighborhood urgently needs revitalization. In contrast, the Naval Surface Warfare Center at White Oak is not in any city, is far from any centralized community business area, and is in an affluent Montgomery County residential neighborhood.

The Executive Order and the CFR have provisions that make them especially applicable when the neighborhood of the urban site (Southeast Washington) is economically depressed while the suburban site is affluent, and when the urban site is adequately served by public transportation, while the suburban site is not. Because of its residential suburban location, the White Oak site is served only infrequently by buses that run from Metrorail stations in the morning and to the stations in the afternoon.

Appropriations legislation makes funds available for federal construction in specified locations. The language of such legislation and its supporting committee reports should not conflict with an existing Executive Order and a recently revised Federal regulation that both require federal agencies to give preference to a different location.

FDA must economize on its space requirements to a great enough extent to allow it to consolidate at the Southeast Federal Center, rather than at suburban White Oak. Congress should not support the appropriation of funds if such an appropriation would encourage GSA to violate the Executive Order and its implementing regulations.

9. The March 1995 DEIS discusses a federal report to the Secretary of HHS (Final Report of the Advisory Committee on the Food and Drug Administration, May 15, 1991) that assessed the need for new FDA facilities. According to the DEIS (p. 1-8), the Committee summarized its chapter on resources by recommending, "*The FDA must now begin to correct the most urgent of its facility needs, particularly for food and veterinary medicine laboratories and field operations.*"

It is noteworthy that FDA is now planning to relocate its food and veterinary medicine laboratories to new facilities in Prince George's County, Maryland. Facilities for field operations would not be improved by an FDA headquarters consolidation. **According to documentation cited in the DEIS, the FDA offices and centers that FDA plans to move to White Oak do not appear to be in great need of new facilities at this time.**

While some FDA facilities may need renovation or replacement, many do not. Senate Report 101-242, which supports the consolidation, cites only one example of a facility that is antiquated. This is a laboratory in CFSAN,

which FDA plans to relocate to Prince George's County and not to Montgomery County.

FDA and GSA officials may describe to you certain existing buildings that are inadequate. These descriptions may be correct; however, my personal observations indicate that the conditions of such buildings are not representative of most buildings that FDA now occupies.

One FDA laboratory building that may need repair is on the NIH campus in Bethesda, Maryland. This is a laboratory of the Center for Biologics Evaluation and Research (CBER), which would be relocated to White Oak. However, this building is owned by the Federal government.

The government will have to fund the CBER lab's renovation even if FDA leaves it. Further, if FDA leaves this facility, its personnel will lose valuable personal interactions with world-renowned personnel who work for NIH. They will also lose the ability to use valuable and unique NIH equipment. The government will gain nothing from this move.

Some of the CBER laboratories have recently moved into a new building on the NIH campus. Thus, even within CBER, not all laboratories are in poor condition.

In contrast to some FDA laboratories, many of the office buildings used by FDA are in good or excellent condition. Some are in leased buildings that are quite new. Some even contain amenities such as large atriums with palm trees.

Such superb facilities can be observed at the Center for Devices and Radiological Health (CDRH) offices at 9200 Corporate Blvd. in Rockville. Other excellent CDRH office facilities are located at 1350 Piccard Drive and 2094 and 2098 Gaither Road in Rockville. Still others can be seen at the offices of other Centers in the Metropark North buildings on Crabbs Branch Road in Rockville.

The adequacy of the CDRH office facilities is documented in an Interoffice Memorandum sent by Electronic Mail dated 01-Feb-1995, from Connie J. Wilhelm-Miller, of the CDRH Office of Management Services, Division of Resource Management. This memo, whose primary subject is Smoking Policy (smokers were putting burns in the floors and walls of new buildings), states that "most of CDRH's office space is fairly new". My personal observations confirm the accuracy of this statement.

A Conference Committee Report (House Report 102-234) that supported the 1992 Appropriations legislation (P.L. 102-141) stated that there is no disagreement that FDA facilities are antiquated, inefficient and overcrowded. This is simply incorrect. It overstates a problem that is being experienced by only a small portion of FDA.

House and Senate Reports supporting the consolidation state that FDA's antiquated facilities are causing recruitment and retention problems. However, this is only true at very few places, and perhaps only in the CFSAN laboratory that is relocating to Prince George's County.

I know of no FDA building housing an office or laboratory that will move to the White Oak campus that is in such disrepair that people will not work in it. Some buildings may need improvement, but none are that bad.

Most FDA workers work only in offices. Many of these are in fairly new buildings that are in good condition, such as the one in which I work. There is little reason to expect that many of these employees will be happier in a new facility at White Oak.

Limited replacement of facilities with local consolidations where needed may well be desirable. However, a massive consolidation of Montgomery County facilities is not.

10. FDA facilities are presently dispersed. However, this does not create great inefficiencies. Many FDA offices with related functions, such as those in CDRH in Rockville, are consolidated in buildings within one or two miles of each other. A large number are in and near a single building (the Parklawn Building) near the Twinbrook Metro Station in Rockville, MD.

Although there are a number of functions that involve different offices in different centers, most functions are carried out within one Center. More importantly, few interoffice functions require more than occasional face-to-face interactions which necessitate travel.

In addition, travel times between existing Centers that will consolidate in the Montgomery County campus not great. All are connected by Rockville Pike and I-270. The average trip between offices is probably less than 1/2 hour.

It is important not to overrate the need for consolidated facilities.

The U.S. Armed Forces won the Second World War operating from bases and headquarters throughout the U.S. and in much of the rest of the world. Only a tiny percentage of defense workers and military personnel were located in any single facility. Decentralized agencies can and do often work at least as efficiently as those that are consolidated.

Further, the great majority of product approvals require decision-making within only a single building. It is only unusual decisions that require conferences in separate buildings. Only a tiny minority require conferences among offices in widely scattered facilities.

Most FDA personnel therefore have no need to travel between different centers or offices on a regular basis. The need for consolidation is not great, despite the statements made in Congressional Committee Reports.

A number of present FDA centers are located near Metro stations, such as Medical Center, Shady Grove, and Twinbrook. The large Parklawn Building is an example of this. Many employees can therefore now travel quickly and easily from one Center to another, as well as to meetings at NIH and in downtown D.C.

In contrast, White Oak is 3 miles from Metrorail. Few, if any, people will take Metro to commute or to go to meetings at NIH or in D.C.

Most communications occur today by phone and by electronic mail. Electronic networks allow documents to be transmitted to anyone with a receiver. Indeed, many FDA personnel now regularly work at home using FLEXIPLACE. Using home computer modems, they can connect with FDA computer networks to perform most necessary functions.

The need for a costly consolidation is not great. It cannot be expected to greatly increase FDA's efficiency. By causing experienced workers to leave the agency, it may actually decrease FDA's effectiveness.

11. Congress should only appropriate funds for a consolidated FDA facility if the consolidation would help increase the use of mass transportation or would aid in the redevelopment of a depressed urban center such as Southeast Washington, D.C. It is environmentally and economically unsound for Congress to fund the construction of a new facility at White Oak that is far from an urban center.

12. Most FDA employees need to work only at a single location. The approval of new drugs and medical devices usually takes place within a single FDA Center. A major FDA consolidation, if it occurs, will primarily benefit a small cadre of FDA managers who often travel between centers and who are promoting the consolidation.

    In actuality, a major consolidation is not likely to benefit many FDA employees. It is even less likely that a consolidation will significantly speed the approval of new drugs and medical devices.

13. During President George Bush's term in office, the Office of Management and Budget (OMB) opposed funding of the FDA consolidation because it was not worth the cost. The Administration considered it more cost/effective to renovate facilities as needed.

    It was a Congressional Appropriations conference committee that first proposed the appropriation of funds for the FDA consolidation (Conference Report for P.L. 102-141: House Report 102-234, Oct. 3, 1991). The Conferees directed FDA, GSA, HHS, and OMB to work together to submit a funding plan for the project and urged OMB and the President to support the Conferees' concept of the "consolidation".

    The Conferees introduced the concept of building separate FDA facilities in Prince George's and Montgomery County. They recommended the appropriation of $200,000,000 in the Federal Buildings Fund to begin the process of dismantling the single-site consolidation that the FDA Revitalization Act (P.L. 101-635) had previously authorized.

    P.L. 101-635 had amended the Federal Food, Drugs and Cosmetics Act. It had authorized the Secretary of HHS (**not the Administrator of GSA**) to construct a single consolidated FDA facility.

    Despite this authorization, the Conferees recommended the appropriations of funds from the Federal Buildings Fund for the GSA Administrator to use to construct two FDA facilities in separate counties located in the State of Maryland. The Conferees also recommended that the appropriation for the FDA facilities be exempt from prospectus requirements of the Public Buildings Act of 1959.

    Appropriations Conference Committees have therefore undermined the FDA Revitalization Act, the Public Buildings Act of 1959, Executive Order No. 12072, 41 CFR 101-17.000 et seq., and the National Capital Planning Act of 1952. They have made it difficult for government officials to follow

procedures that assure compliance with Congressional oversight legislation and site selection requirements in the National Capital Region and elsewhere.

These Conference Committees have endorsed the appropriations of funds for more than one FDA "consolidated" facility, have designated the GSA Administrator (rather than the Secretary of HHS) as the planner and builder of the facilities. They have also allowed GSA to construct buildings without a prospectus.

Appropriations conferees have recommended that FDA build a campus rather than consolidate in a single building. Additionally, they have caused FDA to transfer federal jobs out of the financially distressed District of Columbia and into more prosperous Maryland counties and neighborhoods.

This is not good planning. It is pork barrel politics at its worst. Congress must correct itself.

14. Senate Report No. 101-242, Feb. 1, 1990, which supported the FDA Revitalization Act (P.L. 101-635) estimated that the cost of the consolidation would approximate $500,000,000.

    FDA and GSA now estimate the total cost of the consolidation to be at least $600,000,000. This would create a cost overrun exceeding the original $500,000,000 estimate by $100,000,000.

15. Despite the 1995 rescission of funds for the Clarksburg facility, FDA's and GSA's facility engineers continue to plan for a large FDA campus. They do not wish to seriously economize in the agency's use of space.

    By creating unnecessarily large requirements for space, they are evading their responsibilities to consider locating the consolidated facility in a compact site in a central city. One such site is now available at the Southeast Federal Center.

    Unless Congress intervenes as it did in 1995, GSA and FDA will likely violate major provisions of Executive Order No. 12072 and the National Capital Planning Act of 1952. As noted above, these now dictate a preference for the Southeast Federal Center.

16. Some reports on FDA have suggested that certain FDA facilities are overcrowded. This may no longer be true.

    GSA has recently leased a number of new buildings for FDA. Overcrowding is therefore not as acute as it was several years ago.

17. The DEIS contains no information on the number of buildings that FDA will reuse at White Oak. FDA will not be able to use many of the existing buildings because they are contaminated, deteriorated, of unsatisfactory conformation, and poorly located. FDA will clearly need to build a number of costly structures at White Oak.

18. Some of the planned excess capacity at the 130 acre White Oak facility is desired for future expansion. However, this amounts to nothing more than speculation.

    Expectations of FDA expansions may well be unrealistic. FDA has not grown significantly in recent years, except in a few specific areas. Further, regulatory agencies often do not grow over long periods of time when there is an anti-regulatory climate, when there are budgetary problems, or when there are pressures to privatize Federal functions.

    FDA's major growth occurred years ago in response to obvious and important needs. FDA can now meet most of these needs without any further growth. Although many agencies try to justify their own expansion, FDA may never be able to significantly increase its size or number of employees.

    A compact site such as the Southeast Federal Center is more consistent with proposed FDA reform legislation than is a 130 acre site at White Oak. This reinforces the need for Congress to direct a study of the Southeast Federal Center.

19. Because FDA would acquire more land at White Oak than it presently needs, it will surely press for additional funding to construct more buildings in the future. This will increase future government expenditures.

    As the FDA campus adds buildings at White Oak in the future, it will increase the urbanization of its surrounding residential neighborhood. This will eventually exceed the limits imposed by current zoning and land use plans and will create local controversies.

Bernard H. Berne, M.D., Ph.D.

LIST OF EXHIBITS

1. FDA TODAY (July 1995): $14,000,000 remains for Montgomery County consolidation after 1995 rescission.

2. DRAFT ENVIRONMENTAL IMPACT STATEMENT FOR FDA CONSOLIDATION MONTGOMERY COUNTY (GSA, March 1996): Plan for 130 acre FDA campus at White Oak Naval Surface Warfare Center and golf course on adjacent federal property.

3. WASHINGTON POST (April 3, 1996): Description of White Oak residential community amenities, including a swimming pool, tennis courts, five tot lots, and luxury apartments featuring individual washers, dryers, ceiling fans, and microwaves in kitchen.

4. PLAN FOR WASHINGTON'S MONUMENTAL CORE ("Extending the Legacy," National Capital Planning Commission, March 1996): Plan to preserve, revitalize and extend Monumental Core of nation's capital. Includes recommendation for economic development to assist the transformation of the Southeast Federal Center into a lively waterfront of offices, restaurants, shops and marinas.

5. EXECUTIVE ORDER NO. 12072: FEDERAL SPACE MANAGEMENT (President Jimmy Carter, Aug. 16, 1978; 43 F.R. 36869; 40 U.S.C. §490; 3 CFR, 1979 Comp., p. 213): Executive Order stating that the process for meeting Federal space needs in urban areas shall serve to strengthen the Nation's cities, shall give first consideration to a centralized community business area and adjacent areas of similar character, and that the heads of Executive agencies shall economize on their use of space.

6. GENERAL SERVICES ADMINISTRATION: 41 CFR Part 101-17: Assignment and Utilization of Space (Federal Register, Vol. 61, No. 46, March 7, 1996, p. 9110): Recent interim federal regulation reaffirming and implementing Executive Order No. 12072. Interim rule amends 41 CFR Part 101-17 by deleting all subparts and sections in their entirety and by adding a new §101-17.205 entitled "Location of Space."

7. PROPOSED FEDERAL CAPITAL IMPROVEMENTS PROGRAM, NATIONAL CAPITAL REGION, FISCAL YEARS 1997-2001 (April 3, 1996): Illustration of declining percentage in District of Columbia of federal employment in the National Capital Region declining from 58.0% in 1969 to 52.4% in 1994.

   Illustration shows that Maryland's federal employment has risen and D.C.'s has fallen since 1969.

   Program contains NCPC recommendation that agencies adhere to policy in Comprehensive Plan of 1983 which specifies that historic distribution of Federal employment in the National Capital Region of approximately 60% in D.C. and 40% elsewhere in Region should continue during next two decades.

8. YOUR GUIDE TO THE CLINICAL CENTER, NATIONAL INSTITUTES OF HEALTH, BETHESDA, MARYLAND (Brochure distributed by National Institutes of Health, 1995): A description of the 14-story Warren Grant Magnuson Clinical Center, which houses more than 2000 NIH laboratories. The building opened in 1981.

9. SIGNING STATEMENT BY PRESIDENT WILLIAM J. CLINTON FOR TREASURY, POSTAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS ACT, 1995 (P.L. 103-329. U.S. Code Congressional and Administrative News, Vol. 5, 1994, p. 2089-1): The Administration will not recognize provisions in Appropriations Act that condition President's authority to use funds appropriated by Act on the approval of congressional committees.

10. THE FOOD AND DRUG ADMINISTRATION REVITALIZATION ACT (P.L. 101-635, Nov. 30, 1996): The authorizing legislation for that authorized the Secretary of Health and Human Services to enter into contracts to design, construct and operate a single consolidated FDA administrative and laboratory facility. The GSA Administrator was only authorized to consult with the Secretary of HHS.

11. PUBLIC BUILDINGS ACT OF 1959 (P.L. 85-249, Sept. 9, 1959): The Public Buildings Act requires the GSA Administrator to transmit a prospecus for large building projects to Congress. Sec. 7 states that approval of the prospectus is required "in order to insure the equitable distribution of public buildings throughout the United States."

[CLERK'S NOTE.--The exhibits will not be printed in the hearing record, but are available for review in the subcommittee files.]

CITIZENS FOR A SOUND ECONOMY

PREPARED STATEMENT OF LYDIA S. VERHEGGEN, DIRECTOR OF HEALTH CARE POLICY

Mr. Chairman and members of the Committee, my name is Lydia Verheggen, and I am Director of Health Care Policy at Citizens for a Sound Economy (CSE), a non-partisan, nonprofit, research and education organization founded in 1984 to develop and advocate market-based solutions to public policy problems. We boast 250,000 members in all 50 states, and I am grateful for the opportunity to submit testimony for the record on behalf of those members.

This committee has jurisdiction over the appropriations of General Services Administration (GSA), the agency responsible for upgrading the Food and Drug Administration's (FDA) facilities in the Washington, D.C. area. The project, as described by GSA and FDA, is a consolidation of the FDA's existing facilities in the Washington, D.C. area into two new facilities. Both sites would be located in Maryland -- one in Montgomery County and the second in Prince George's County.

This "building upgrade" has traveled on a funding roller coaster since the authorization statute passed in 1990 (the Food and Drug Administration Revitalization Act P.L. 101-635). Initially, the White House estimated the total cost of the project to be $300 million. The estimates then climbed to $500 million and on to $1.3 billion. Then inexplicably the figures plummeted to $800 million and then $600 million.

As you will recall, last year the House voted to rescind $228 million in funding for the Montgomery County facility, leaving approximately $14 million for the project for site and design. It now appears that this $14 million will be used to draw up plans for the acquisition of the Naval Surface Warfare Center in White Oak, Maryland for a Montgomery County facility.

The FDA maintains that its employees would be more efficient and productive if housed on the two Maryland sites rather than several throughout the local area. Despite the fact that the FDA has not formally requested additional resources for this upgrade, the so-called "consolidation effort" continues. Spending this remaining $14 million to further the misconception that the FDA's inefficiencies will be eliminated by the acquisition of two larger facilities is not an appropriate use of taxpayer dollars.

CSE does not wish to debate either the condition of the FDA's facilities or the condition of those buildings that the government is currently renting for the FDA. Rather, I would like to outline several reasons why Citizens for a Sound Economy, on behalf of its 250,000 members, opposes the continuation of this project at this time.

LEGISLATIVE REFORM IS TAKING PLACE

As we speak, both houses of Congress are engaged in redefining the FDA's mission and reducing its role in the marketplace. Against this backdrop, it simply makes no sense for the FDA to embark on the construction or acquisition of a new "campus." Authorizing committees in both the House and Senate are deeply committed to bipartisan FDA reform and plan to enact such legislation this year. Acquiring 735 acres of land -- public or private -- for the purpose of a "consolidated campus" of this magnitude would be short-sighted, especially until the future of the FDA is defined by Congress.

A QUESTION OF PRIORITIES

The FDA maintains that the campus consolidation is critical to fulfilling its mission. However, the FDA's mission is currently being reconsidered by both the House and Senate. Throughout this legislative process, the FDA has been heavily criticized for excessive delays in approval of new drug and medical device applications, while launching new regulatory initiatives that have nothing to do with timely and efficient product approval.

As a result, the proposals being considered in both the House and Senate contain mechanisms that would lessen the FDA's role in the approval process as well as redefine the agency's core mission to prevent the agency from straying from Congressional intent. Obviously, should any of these reforms result in a shifting of priorities or a reduction in staffing levels at the FDA, embarking on a new campus consolidation effort would prove inappropriate and a misuse of federal funds.

PROPOSED CONSOLIDATION

The current FDA consolidation plans call for a "campus-like" facility. The FDA claims that it needs a consolidated campus because "the current fragmentation of FDA offices and laboratories . . . makes [FDA] less efficient than [it] can and should be." While consolidation of government facilities can in some cases be an improvement, FDA's campus plan can hardly be characterized as "consolidated."

The FDA completed the construction of a new facility, Module I, in Beltsville Maryland in 1995, and broke ground on another facility, Module II, last year. In addition to Modules I and II (both located in Beltsville, Maryland), the FDA is planning to use $84 million in unobligated site and design funds to plan construction of yet another facility in Prince George's County. With three locations in two counties, each 20 miles apart, can this plan really be called a consolidation?

Last year the Maryland delegation recommended that the GSA and FDA consider the Naval Site at White Oak as an alternative to Clarksburg, last year's proposed consolidation scheme. The recommendation appeared to be motivated by the desire to protect Maryland workers and avoid the government purchase of private land. While this may seem a reasonable alternative, CSE remains concerned about the justification for a consolidation, which is based on a six-year old statute.

This statute was enacted years before any form of agency overhaul had been envisioned. President Bush and the 101st Congress did recognize that a portion of the FDA's facilities were in some need of repair. The cost of the desired improvements in 1990 was estimated at $388 million. Somehow, those estimates increased to $880 million last year. Once again, these estimates were based on the FDA's ever-increasing responsibilities. Those responsibilities are now being challenged and reconsidered by Congress. A six-year old statute -- which is being revised as this hearing takes place -- is no longer adequate authority to build a consolidated campus.

PROBLEMS WITH WHITE OAK

Last year, with the closing of the 730 acre Naval Surface Warfare Center in Montgomery county Maryland (White Oak), the FDA announced it would move to White Oak if the agency's consolidation was approved by Congress. That site is currently tainted with cancerous chemicals and buried explosives. The Navy employees will not vacate the base until 1997 at which time the base will be ready for clean-up. Clean-up costs have been estimated at $22 million over 10 years. But that estimate is only what is needed to bring the site up to Navy standards -- not community standards. The FDA may need a cleaner site for its laboratories. The newest FDA estimate for total consolidation of the campus will be approximately $592 million, with White Oak alone accounting for $471 million.

Because White Oak is not located near a Metro station, the issue of providing traffic control to an area not accustomed to 6,000 FDA commuters may prove costly. Again, the costs associated with this site are not clear and the time frame for consolidation is over several years. All issues considered -- unanticipated costs, the changes in FDA mission, the potential for a drawn-out relocation process, and the inaccessibility to site by Metro -- the acquisition of White Oak is not an appropriate obligation for this year.

THIS SUBCOMMITTEE'S JURISDICTION

This Subcommittee has the responsibility for denying funding to nonessential projects. The FDA's consolidation project, given the aforementioned reasons, certainly falls into this category. As this subcommittee may be aware, the Public Buildings Act of 1959, P.L. 86-249 specifically states "no public building shall be constructed except by the Administrator of the General Services Administration, and the maximum cost of any project must be set forth in a prospectus." CSE believes that it is not appropriate to exempt the FDA's proposed building construction from the Public Buildings Act of 1959. Rather a prospectus should be submitted to the Congress and the appropriate funding then approved by this subcommittee based on that prospectus.

CONCLUSION

In a time of government streamlining, downsizing, and reorganization, this Congress should not permit the GSA or the FDA to continue with current consolidation plans. The $14 million designated for consideration of site locations should be not be used until the Congress has enacted FDA reform legislation. This subcommittee can act to ensure that the GSA does not consider further the campus plans. Your authority over GSA and federal buildings' prospectuses will not only save taxpayers money in the short-term, but over the long-run as well. I thank you Mr. Chairman, and I will be happy to answer whatever questions the committee might have.

NATIONAL ASSOCIATION OF ARMS SHOWS [NAAS]

PREPARED STATEMENT OF BOB TEMPLETON, CODIRECTOR

Mr. Chairman, I am the Co-Director, along with Wallace Beinfeld, of a newly formed firearms association, the National Association of Arms Shows (NAAS). NAAS represents a unique faction of the firearms industry. Its members include promoters of major firearm collector organizations in the country and producers of private for-profit gun shows, large and small, throughout America. We thank you for allowing us to share our views with the Committee on matters of great importance to our Association.

The Association was formed to support members in their efforts to produce quality shows and encourage the legal, safe and ethical trading of firearms and related items. NAAS is committed to encourage involvement in the education of the general public, show participants, federal, state and local lawmakers, and the media about firearms issues and legislation that affect our industry.

NAAS is extremely concerned about the unfair and unreasonable application of regulations against gun show sales between Federal Firearms License (FFL) dealers. The BATF has created a self-imposed, uncodified policy which requires a licensed dealer to ship all his firearms back to his licensed place of business in order to then re-ship them back to another FFL dealer, with whom he has just transacted business with, at an out-of-state gun show.

We have made a tremendous effort, over a five year period, to work out this problem with the Bureau of Alcohol, Tobacco and Firearms (BATF) in an administrative fashion. We are now firmly convinced, due to the most recent correspondence from Director Magaw to you, Mr. Chairman, that BATF will not recognize the legal authority provided for and intended by Congress to allow licensed dealers to conduct their firearm business with other licensed dealers, personally, and at out-of-state gun shows.

BATF has constructed an argument, based on provisions in the Gun Control Act of 1968 (GCA) that states that licensees (i.e. firearm dealers) are prohibited from consummating sales to other licensees at out-of-state gun shows. However, BATF merely relies on provisions in the GCA that pertain to the regulation of licensee to non-licensee transactions. In fact, pursuant to the GCA there are a number of provisions that specifically allow dealer to dealer transactions, without regard to geographic restriction or personal delivery of the firearm.[1]

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[1] To name just a few provisions that indicate a different intent by Congress, see the following. The Gun Control Act of 1968, Public Law 90-618, 18 U.S.C. § 922(a)(1)(A) provides that only a licensee may "ship, transport, or receive any firearm in interstate or foreign commerce". 18 U.S.C. § 922(a)(2) states that only a licensee can ship or transport a firearm in interstate commerce, and only to another licensee. 18 U.S.C. § 922(a)(5) exempts licensees, between themselves, from the prohibition of transferring, selling, trading, giving or transporting a firearm to a person living out of State from the transferor.

The GCA is replete with statutory examples of the special exemptions and treatment that dealers are afforded when transacting business with other dealers, rather than the general public. No where in the GCA is it mentioned or required that a licensed dealer must transport a firearm by common carrier in order for a licensed dealer to complete a lawful firearm transaction.[2]

Our Association has every confidence that Congress did not intend to hinder trade between licensees either in their home states, in interstate commerce, or at gun shows. In fact, the statement of purpose in the GCA states as much.[3] As a practical matter, this self-imposed policy by BATF encourages theft, imposes unwarranted shipping and insurance costs, and interferes with interstate commerce.

Finally, even under the provision in the GCA act which describes "Unlawful Acts"[4], there is no provision which states that it is unlawful for a licensee to personally deliver a firearm to another licensee. In fact, it is our belief that Congress, through the GCA, positively intended that a licensee can do just that.

In addition, in brief, there is case law analysis, which BATF has chosen to ignore, which supports the fact that there is no reason to support BATF's uncodified policy.[5]

Senator, our Association is committed to working for professional standards in the consumer oriented gun show business. We would like to restore to Federal Firearm Licensees the authority they were accorded, in a very careful manner, by Congress.

We strongly urge you and other Members of the Committee to consider appropriations language which would prohibit BATF from continuing to use taxpayer funds to enforce an approach the Congress never intended.

On behalf of our Association, we respectfully request that this statement be made a part of your hearing record.

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[2] 18 U.S.C. § 923(c) states that a licnese "shall enttile the licensee to transport, ship, and receive firearms and ammunitiion covered by such license in interstate or foreign commerce..." It is a fact that personal transportation and delivery are encompassed within that language.

[3] *See*, The Gun Control Act of 1968, Public Law 90-618, § 101.

[4] 18 U.S.C. § 922.

[5] *See*, *United States V. Caldwell*, 49 F.3d 251 (6th Cir. 1995); *United States v. Douglas*, 974 F.2d 1046 (9th Cir. 1992).

NATIONAL TREASURY EMPLOYEES UNION

PREPARED STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT

Mr. Chairman and Members of the Subcommittee:

I am Robert M. Tobias, National President of the National Treasury Employees Union. NTEU is the exclusive representative of over 150,000 Federal Government employees, including all employees of the Internal Revenue Service and the U.S. Customs Service. On behalf of the men and women who collect the revenue for the Federal government, fight to curb the flow of illegal narcotics and contraband into our country, and enforce our trade laws, I am pleased to be here today to present our Union's views on the IRS and Customs budget request for FY 1997.

IRS and Customs are the two main revenue collection agencies of the Federal government. They are also enforcement arms for our tax and trade laws, assuring equitable sharing of the tax burden, and protecting our economy from illegal imports. Both agencies confront workloads that have risen 116 percent over the past decade with resources that have grown only 7-10 percent during this same period. Both agencies must deal with serious non-compliance while imposing minimum burdens on honest taxpayers and honest importers.

The overall strategy of the President's budget requests for IRS and Customs for FY 1997 is deterrence -- deterrence of tax evasion, drug running, and commercial fraud. NTEU supports this strategy as a sound approach to shoring up compliance in an era of limited resources. We strongly support the President's budget requests for these two critically important agencies.

The IRS and the U.S. Customs Service, properly staffed and equipped with the latest technology, can raise the risks and costs of non-compliance and demonstrate that the risks and costs

are not worth the potential gain. Good examples are IRS's program to verify social security numbers on 1995 tax returns, resulting in 1.5 million fewer dependency claims this year; and Customs' Southwest Border Initiative that has brought port running to a standstill and deflected smugglers to outlying regions.

Both IRS and Customs continue to face severe resource constraints which impair their operations and cause revenue that should be collected, to be lost. We strongly urge the Subcommittee to adopt a policy of investing in tax and commercial fraud enforcement where the threat is identifiable and the return on investment is significantly greater than the cost. Nonfiler, underreporter, and collection programs within the IRS are cases in point.

The irony is that, with better technology, IRS and Customs have better means to identify non-compliance; what they lack are the resources to pursue such non-compliance, collect the additional revenue, and deter future non-compliance. The Federal government will not fully realize the return on its investment from modernization and business reorganization efforts until it can take action on the underreporters, non-filers, delinquent accounts, and fraudulent entries identified by IRS and Customs' employees.

Within each agency's budget request, there are areas where this Subcommittee can and should provide additional resources within budgetary caps. Let us first consider IRS and the state of our current tax system.

Current State of the Tax System

The best overall indicator of tax compliance is the tax gap -- the difference between taxes legally owed and those voluntarily paid. In 1992, the tax gap stood at $127 billion. Overall voluntary compliance was 83 percent (Table 1). Since a one (1%) percent change in voluntary compliance would raise $9 billion in income taxes, an increase of only a few percentage points would significantly reduce the deficit.

Major contributors to the tax gap include independent contractors who account for $21-$30 billion of taxes owed; approximately ten million non-filers who cause $7 billion in lost revenue; and large corporations who underpay their tax debts by $24 billion.

In our testimony last year, we summarized evidence uncovered by GAO that non-compliance by the nation's 45,000 largest corporations was particularly egregious. Between 1981 and 1992, the tax gap for large corporations grew 79 percent. At that time we asked, "Why are the nation's largest corporations not paying $24 billion a year that is properly owed to the Federal government?" Over 5 years, more than $120 billion could be collected from these corporations -- the same corporations who average $6.5 billion in assets, $1.5 billion in income, and $179 million in taxable income each year.

GAO has now answered this question in a report (GGD 96-6) that found:

- the number of returns audited for higher asset corporations fell 16 percent between 1988 and 1994;

- audit coverage decreased from 43 percent to 31 percent for higher asset corporations over the same period (Table 2);

GAO also studied the Coordinated Examination Program (CEP) which audits these 1,700 corporations. It found that the IRS applied only one direct examination staff-year to each CEP return examined between FY 1987 and FY 1992. GAO concluded that, "This modest level of effort to audit complex corporations with billions of dollars in assets and income will undoubtedly miss some noncompliance."

GAO went on to find that the IRS does not audit every CEP taxpayer each year, but audit coverage ranges from 66 to 77 percent. Even with less than full coverage and modest resources, CEP recommended tax assessments rose 47 percent, from $10.9 billion to $16 billion between FY 1990-1992.

"Transfer pricing" is also costing the federal government billions of dollars of lost revenue each year. Multinational corporations can avoid U.S. taxes by manipulating the prices of intercompany sales of goods and services, so-called transfer pricing. In 1990, IRS tracked 73 major examinations of international tax issues with proposed adjustments to income of $11.9 billion. In 1993, $1.8 billion in additional taxes were assessed on 51 U.S. and foreign controlled corporations in transfer price audits. Despite these efforts, data published by IRS in it's Statistics of Income Bulletin indicates subsidiaries of foreign corporations are not paying their fair share of U.S. taxes. Given the rise in the tax gap for large corporations and losses through transfer pricing, more can and should be done to ensure that large corporations pay their fair share of the tax burden. It is unfair for these large companies to be getting a free ride. Congress should call a halt to this manipulative practice.

Let me turn now to the IRS FY 1997 budget request.

The Administration's FY 1997 Budget Request for IRS

NTEU supports the President's FY 1997 budget request for the IRS of $7.995 billion and 109,050 FTE's. The FY 1997 budget represents an increase of $647 million and 2,699 FTE's above the FY 1996 level. Approximately $276 million of this requested increase is needed by the IRS simply to maintain its current FY 1996 program levels and to process the projected increase in tax returns which will be filed during FY 1997.

In the Tax Law Enforcement account, the FY 1997 budget request contains a "Revenue Protection Initiative" of $359 million and 3,820 FTE's. This increase is partially offset by a reduction of $67.5 million and 1,341 FTE's which is IRS's share of the government-wide reduction to reduce the deficit. The net increase in Tax Law Enforcement after adjustments is 2,390 FTE's.

The "Revenue Protection Initiative" allocates 2,490 FTE's to Collection, 800 FTE's to Document Matching, 300 FTE's to Examination, and 230 FTE's to Tax Fraud and Financial Investigations before allowing for the government-wide reduction and other adjustments. The FTE increases, breakdown of costs, and projected revenue increases are shown in the table below.

FY 1997 REVENUE PROTECTION INITIATIVE

Program	FTE	Costs	Revenue
Collection	2490	$263 million	$1.265 billion
Document Matching	800	$ 40 million	$ 136 million
Examination	300	$ 35 million	$ 88 million
Tax Fraud	230	$ 21 million	---

IRS estimates that the "Revenue Protection Initiative" will yield an additional $1.5 billion in revenue during FY 1997. This equals a return on investment of more than 4 to 1. Between FY 1997 and FY 2002, total revenues generated as a result of this initiative are estimated to total approximately $16 billion with a return on investment of more than 7 to 1. Approximately 2/3's of the additional 2,390 FTE's proposed for Tax Law Enforcement as part of the "Revenue Protection Initiative" would be directed to increase the existing staffing of Automated Collection Sites and front line collection efforts within IRS service centers. An additional 800 FTE's are proposed to the Underreporter and Automated Substitute for Return programs. These two programs alone are projected to generate more than $1.25 billion and $136 million respectively in additional revenues in FY 1997. Without this Revenue Protection Initiative, the required FY 1997 program reductions to traditional "back-end" enforcement functions which are performed by Revenue Agents and Revenue Officers are not offset with increases to new "front-end" enforcement efforts.

According to GAO, before FY 1995, IRS consistently used at least some of its compliance initiative funding for purposes other than Congress intended. To correct this problem, the Appropriations Committees restricted the agency's ability to use its FY 1995 compliance initiative funds. The FY 1995 initiative was extremely successful. While the IRS estimated that first year revenues would total approximately $330 million, it actually generated more than $800 million in additional revenue in FY 1995. As a result, we urge the Subcommittee to "fence off" the FY 1997 Revenue Protection Initiative within the budget caps so that these resources will not only be used for the purposes for which they are intended, but they will also be sustained in future budgets.

Taxpayer Service

During last year's filing season, IRS telephone assistors (taxpayer service specialists and taxpayer service representatives), achieved a commendable accuracy rate of nearly 90 percent. Similar to the direction that other "customer service" organizations are moving, the IRS has been working hard to improve its service to taxpayers. The toll-free telephone is fast becoming the principal mode of contact between taxpayers and the IRS. Airlines, credit card companies, retail businesses, and other customer service operations continue to stress the importance of helping customers while they are on the telephone. Several years ago, the IRS introduced the concept of "One-Stop Service" to resolve issues during a taxpayer's initial contact. Although its nationwide level of access remains below fifty (50%) percent due to resource limitations, its Initial Contact Resolution (ICR) rate increased between FY 1995 and FY 1996 from 75% to 77%. This measure of success is projected to increase to 79% assuming adequate funding levels can be maintained. We strongly urge the Subcommittee to continue to support IRS's efforts to improve its customer service operations.

Returns Processing and Service Centers

In FY 1997, the IRS will process more than 212 million returns and issue refunds to 91 million taxpayers. Some 21,662 FTE's will be authorized for returns processing, including an additional 220 FTE's to handle the projected Service Center workload growth.

In addition, IRS service centers are responsible for answering 21 million letters from taxpayers on issues ranging from account adjustments to enforcement actions. IRS reports that it is now responding to taxpayers within 30 days, 85 percent

of the time, with a 90 percent accuracy rate. This correspondence activity is planned to be transferred from the existing 10 Service Centers into 23 "customer service centers" by 2001.

IRS "Customer Service Centers" will eventually handle all taxpayer contacts not requiring face-to-face interaction. This will require the consolidation of tasks currently conducted at existing taxpayer service call sites, automated collection call sites, forms distribution sites, and many tasks now performed at service centers. With the implementation of the Integrated Case Processing system and other information systems enhancements, IRS Customer Service Centers will be better able to provide improved one-stop service to taxpayers.

Examination and Appeals

Nearly 29,000 Examination employees, including 14,700 Revenue Agents and 2,500 tax auditors are projected to recommend $23.4 billion in additional taxes and penalties in FY 1997 (Tables 3 and 4).

In addition, the IRS Appeals function has been realigned from the Office of Chief Counsel to the IRS Examination Division. NTEU supported this realignment as a measure that will remove Counsel's desire to hold docketed cases to a minimum as a factor in appellate decisions. The results of this realignment will benefit the government and taxpayers alike. Some 1,000 Appeals Officers will close 23,000 docketed and 43,000 non-docketed cases in 1997, realizing $3.5 billion in revenue. The appellate workload from CEP exams will continue to climb, and IRS' efforts to achieve higher sustainment rates on recommended taxes will require Appeals Officers and Revenue Agents to coordinate more closely in formulating sustainable tax positions.

Collection

Despite the proposed addition of more than 2,000 FTE to Collection in FY 97, only 500 more Revenue Officers will be on board. GAO has consistently favored the use of the Automated Collection System to collect delinquent taxes by telephone, and the IRS is proposing to follow this direction. While NTEU supports the IRS "Revenue Protection Initiative", it is also important to note that there continues to be a large number of collection cases where the taxpayer's identity is known and the amount owed has been legally and finally assessed. Yet, collection efforts by computer notices and ACS have failed to budge these recalcitrant taxpayers.

In the private sector, the only alternative would be a costly lawsuit. The action of an IRS Revenue Officer, in the field, contacting recalcitrant taxpayers not only sends a strong signal to the individuals concerned, but it reverberates in the community and reinforces overall voluntary compliance. To allow large numbers of noncompliant taxpayers to escape collection will send the wrong signal to taxpayers generally, and invite the tricks and ruses now practiced by a small number to become commonplace in the future. It would be penny-wise and pound-foolish to allow huge inventories of the most difficult tax collection cases to languish from a shortage of Revenue Offices to work such cases.

At the very least, IRS needs to keep pace with each year's growth in delinquent accounts and prevent their aging. ACS is critical to this process and adequate staffing is vital. Revenue Officers are essential to handle the most difficult collection cases, and their numbers should be proportional to the current caseload to shorten the response time for action. Faster

response to a delinquency will not only improve collections but will also bring the receivables inventory under control.

IRS has recently issued requests for proposals for a pilot project to test the use of private law firms and debt collection agencies to collect delinquent taxes. It is NTEU's position that contracting out the collection of taxes is simply short-sighted and will only lead to higher costs and decreased revenue collection. All of the recent GAO studies on contracting out government services point to outrageous costs. In addition, private contractors do not have the collection authority that Congress has given to the IRS. As a result, the success of private debt collectors will not yield the same return on investment that would be possible if similar dollar amounts were invested in IRS telephone or field collection activities where employees have the authority to institute liens and levy on property if necessary. Currently, IRS telephone collection efforts yield more than $1 million per FTE, and field collection efforts yield more than $450,000 per FTE. When asked how much additional revenue could have been generated during FY 1996 if the $13 million that is being paid to private debt collectors were invested in additional ACS personnel, the IRS testified that it could have collected an additional $325 million during this year alone.

Congress must give Federal employees a chance to compete on a level playing field before contracting out essential government functions such as collecting delinquent tax accounts. Sensitive tax information should not be turned over to private parties, nor should an activity that significantly influences voluntary compliance be placed in inexperienced hands motivated simply by profits. The IRS Collection Division has been hamstrung in the past because it is at the downstream end of an essentially uncontrollable workload. Today, with new tools and technology

like the Integrated Collection System coming on-line, IRS collection employees have increased their productivity by more than thirty (30%) percent. Programs such as ICS continue to demonstrate that when federal employees are consistently provided with the resources and tools necessary to do their jobs, they can be effective.

Now I will turn to the U.S. Customs Service FY 1997 budget request.

The Administration's FY 1997 Budget Request for the U.S. Customs Service

The President's FY 1997 budget request provides $1.59 billion and 17,846 FTE's for the U.S. Customs Service, an increase of $108 million and 682 FTE's over FY 1996 levels. This requested increase is partially offset by Customs' share of government-wide reductions to reduce the deficit. NTEU supports this request as the minimum funding necessary to support the rapidly increasing demands which are currently being placed upon Customs for illegal narcotics and drug interdiction, trade law enforcement, revenue collection, and export enforcement. The majority of the new positions requested for FY 1997 will be used to strengthen the Customs Service Southwest Border Initiative known as "Operation Hard Line."

Currently, approximately one year after "Operation Hard Line" was implemented, it is already paying significant dividends. Customs drug seizures along the Southwest border have shown a dramatic increase over the previous year. The total number of narcotics seizures increased 22% last year, while the total amount of drugs seized, in terms of pounds, increased by 24%. A record 51,162 pounds of cocaine were seized, a 19% increase over the previous year; 137 pounds of heroin were

seized, a 108% increase; and 407,337 pounds of marijuana was seized, a 25% increase over the previous year.

The number of seizures being made in commercial cargo shipments is also on the rise -- a total of 26 in 1995, more than double the number of seizures made the preceding year. Seven of these seizures involved cocaine -- a Customs record for the Southwest border. During the first three months of FY 1996, the U.S. Customs Service has already seized four cargo shipments filled with cocaine. "Operation Hard Line" has been, and continues to be, a major success in our country's continuing fight to curb the flow of illegal narcotics and contraband across our borders.

On April 16, 1996, Customs announced the implementation of "Operation Gateway", a new long-term initiative designed to counter the growing problem of illegal narcotics smuggling and money laundering in the Caribbean. Operation Gateway is designed to compliment Operation Hard Line as smugglers attempt to move their illegal drug smuggling operations from the Southwest border areas to the Caribbean and Puerto Rico.

Of the 682 additional FTE's which have been requested by Customs for FY 1997, 657 FTE's are proposed to strengthen the Southwest Border Initiative. NAFTA, and the resulting increases in travel and trade between the United States and Mexico, have resulted in a phenomenal increase in business along the Southwest border. During FY 1994, approximately 297 million passengers crossed our borders between Brownsville, TX and San Ysidro, CA. During FY 1997, more than 330 million passengers are expected to cross our Southwest borders. Customs staffing over the last several years has not kept pace with this growth.

The Customs FY 1997 budget request provides for 5,912 Inspectors and Canine Enforcement Officers, an increase of 556 over FY 1996 levels. In addition to their drug law enforcement responsibilities, Inspectors and Canine Enforcement Officers are also responsible for the inspection of high-risk shipments to assure that goods listed on manifests are properly entered and that duties are paid, and released; to assure that discrepancies related to in-bond shipments are properly resolved; to plug gaps in enforcement at bonded warehouses and foreign trade zones; to beef up export enforcement to support the nation's non-proliferation goals; to combat money laundering schemes; and to better protect intellectual property by detecting infringing goods. With the exception of export enforcement, all the above were cited by GAO in 1994 as areas of material weakness in Customs ability to protect the revenue and enforce our trade laws (AIMD 94-119).

In its report, GAO issued an extensive management review of Customs. It concluded:

> "Customs' programs for inspecting goods entering the United States did not provide reasonable assurance that carriers, importers, and their agents complied with laws intended to ensure fair trade practices and protect the American people from unsafe and illegal imported goods. As a result, revenue owed to the Federal government may not have been identified. . . ".

GAO also visited 12 ports and found there was no standard requirement to observe the unloading of carriers and determine that manifests were complete. It was not uncommon for Customs personnel to find unmanifested cargo containers with no seals or broken seals. Information in Customs Automated Manifest System (AMS) was unreliable. Customs also had weak controls to ensure

that carriers released only goods that Customs approved for release. Post audits showed numerous instances where goods had been released without Customs' approval. GAO found that the lack of an effective monitoring system for in-bond shipments increased the risk that goods could be diverted before duties and taxes were assessed.

Since 1994, Customs has been making important strides toward better enforcement without any increase in its dollar budget. In its September, 1994 report entitled; People, Processes, and Partnerships, Customs set forth a major reorganization plan for the entire agency. Its reorganization plan capitalized on the most up-to-date business process improvement and reengineering techniques. On October 1, 1995, the U.S. Customs Service put its reorganization plan into action. It eliminated its seven (7) regions and forty two (42) district offices. The new Customs field structure that is now in place provides greater responsibility and authority to the 301 ports of entry where the actual services are delivered to customers.

Customs also established an Executive Improvement Team consisting of key management officials and NTEU representatives. This team spearheaded this major reorganization of the field structure into twenty (20) Customs Management Centers to administer ports of entry, and the Office of Strategic Trade, which consists of a Headquarters office and five (5) satellite offices located around the country to address international trade issues.

The demands on U.S. Customs Service employees continue to grow. During FY 1997, Customs will continue to provide a high level of drug law enforcement activity along our northern and southern borders; it will process 456 million passengers and 127 million conveyances; it will collect an estimated $27 billion in

revenue; it will apply tariff and various other trade programs to over 17 million formal entries of merchandise involving almost $964 billion in international trade; and it will protect the American public and the environment from the introduction of prohibited and hazardous foreign products.

NTEU has no doubt that the men and women of the U.S. Customs Service are up to the challenge, but they need the support of this Subcommittee and the additional resources requested by the President in his FY 1997 budget request.

In conclusion, Mr. Chairman, the President's FY 1997 budget requests for both the IRS and Customs are cautionary budgets. They emphasize deterrence and aim squarely at preventing regression in agency performance measures that have shown significant improvement over the past several years. These budgets contain conservative, yet realistic plans which are necessary to carry out the missions of these two critically important, revenue-producing agencies in this austere budgetary environment. They ought to be approved.

Finally, Mr. Chairman, I would like to urge this subcommittee to allocate sufficient funds to pay federal employees the 3% raise President Clinton proposed in his budget so that agencies will not have to absorb this cost under existing funding. We believe that a combined across the board plus locality raise averaging 3% is inadequate and is significantly less than what is called for under the Federal Employees Pay Comparability Act, which was authored by Mr. Hoyer, the ranking minority member of this Subcommittee. Having said that, I also understand that the likelihood of Congress approving a larger raise this year is very slim and while I would urge you to consider a larger raise, I believe that it is absolutely crucial that, at a minimum, adequate funds to implement the 3% raise proposed by the President be built into agency salary and expense accounts. Agency spending accounts have been cut so

deeply in recent years that they simply cannot absorb this additional, yet necessary, increase without jeopardizing essential personnel and programs.

Mr. Chairman, this concludes my statement.

APPENDIX I APPENDIX I

Table I.2: Gross Tax Gap Estimates for Tax Years 1992
(Dollars in millions)

Source of tax gap	Tax gap amount	Tax gap distribution (percent)
Individual tax gap	$93,994	73.9%
Unreported income	72,991	57.4
Sole proprietors	33,683	26.5
All other income	39,308	30.9
Overstated deductions[a]	8,081	6.4
Individual remittance gap	11,400	9.0
Math errors	1,521	1.2
Corporate tax gap	33,135	26.1
Small corporations	6,999	5.5
Large corporations	23,716	18.7
Other[b]	420	.3
Corporate remittance gap	2,000	1.6
Total tax gap[c]	$127,129	100.0%

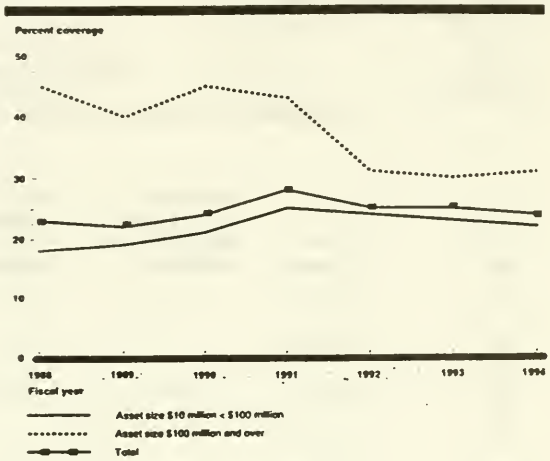
[a]Includes subtractions for erroneous deductions, exemptions, credits, and other adjustments.

[b]Includes unreported income and overstated deductions for exempt organizations' unrelated business income and for fiduciaries.

[c] Totals may not add due to rounding.

Sources: Income Tax Compliance Research, IRS Publication 1415 (7-88); and Income Tax Compliance Research: Net Tax Gap and Remittance Gap Estimates, IRS Publication 1415 (4-90).

Figure II.2: Audit Coverage for Large Corporations, Fiscal Years 1988 Through 1994



Source: GAO analysis of IRS data

Table 3
Staff-years (FTE's) in Principal IRS Enforcement Functions and Occupations 1986-1997

Fiscal Fiscal	Examination	Collection	Revenue Agents	Tax Auditors	Revenue Officers	Appeals Officers
1986	26,120	15,571	13,619	3,292	7,247	
1987	29,243	16,265	14,944	3,105	7,229	
1988	31,895	18,546	16,559	3,242	8,238	
1989	31,315	18,470	16,486	3,327	8,105	
1990	28,788	18,034	15,526	3,003	7,601	1,274
1991	28,592	18,605	15,738	2,842	7,929	1,268
1992	28,393	18,518	15,947	2,704	8,054	1,220
1993	27,490	18,214	15,541	2,556	7,666	1,180
1994	27,599	18,188	15,202	2,453	7,587	1,146

1995	28,408	18,960	15,915	2,745	8,135	1,069
1996 (est)	27,227	17,488	15,156	2,647	7,776	996
1997 (Request)	28,897	19,492	14,694	2,556	7,546	996

Source: GAO and IRS Budgets

Table 4

Performance in Examination Division of IRS, 1986-1996

Fiscal Year	Total Exams	Additional Tax & Penalty Rec from Exams (in billions)	Percent Individual Returns Examined	Percent Corporate Returns Examined	Percent Total Returns Examined
1986	1,310,000	23.3	1.12	2.25	
1987	1,296,000	23.6	1.09	1.58	
1988	1,198,000	22.5	1.03	1.32	
1989	1,144,000	22.1	1.3	2.1	1.08
1990	1,085,000	23.0	1.0	2.7	0.92
1991	1,322,000	31.2	1.2	2.5	1.01
1992	1,284,000	26.7	1.1	3.0	0.96
1993	1,300,000	23.1	0.9	3.1	0.85
1994	1,300,000	23.9	1.1	2.3	1.08
1995	1,700,000	28.62			1.63
1996 (est)	1,700,000	23.8			1.54
1997 (Request)	1,700,000	23.4			1.51

SOURCE: GAO and IRS Budgets

Table 5

Accounts Receivable Dollar Inventory and Collections, FY 1988-1997

Fiscal Year	Total Number of Accounts Receivable (In Millions)	Dollars in Gross Accounts Receivable Inventory (In Billions)	Delinquent Taxes Collected (In Billions)
1988	13.6	75	23.3
1989	15.1	87	23.5
1990	15.5	96	25.5
1991	17.4	104	24.3
1992	19.1	117	24.2
1993	22.0	135	22.8
1994		165	23.5
1995			25.1
1996 (est)			24.9
1997 (Request)			25.9

SOURCE: GAO and IRS Budgets

TABLE 6. U.S. Customs Budget Request for FY 1997
Salaries and Expenses
(Dollars in Thousands)

	FY 1995 Enacted		FY 1996 Authorized		FY 1997 Budget Request		Change From FY 96 to FY 97	
	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE
Inspection & Control	523,392	7,515	568,300	8,399	618,016	8,960	+52,216	+561
Enforcement	482,558	4,554	456,060	4,682	480,387	4,783	+24,327	+101
Tariff	387,816	4,372	362,793	4,053	367,767	4,053	+2,474	--0--
TOTAL	1,392,651	16,441	1,387,153	17,134	+17,796	1,466,170	+79,017	+662

NEWARK, NJ

PREPARED STATEMENT OF ROSEMARY A. HOCKING, DEVELOPMENT DIRECTOR

Mr. Chairman and Members of the Subcommittee:

Newark, New Jersey, the largest city in the state, is home to municipal and County government, and is a regional hub of State and Federal government operations. The Federal presence includes such locations as office buildings, courts and postal facilities. Thousands of visitors and employees access Federal services there daily, and that is why I have come before you today.

In the aftermath of the tragedy in Oklahoma City, extraordinary security measures were put into place around Newark's Federal complex. Streets through and surrounding the buildings were closed, metered parking spaces were eliminated, and an additional Police presence was established. As time passed, these actions have become part of an overall permanent Federal security plan for the area. Since Newark's Police Headquarters, Municipal Courts, and City Hall itself are immediately adjacent to the Federal complex, forming what is called Government Center, the Federal plan has had a marked impact on the ability of citizens to access not just Federal services, but Municipal ones as well. The City government has, of course, worked cooperatively with Federal authorities on this critical issue, but there are costs that the city has incurred for which we are seeking your assistance.

The local Federal officials have requested the permanent closing of five (5) streets to vehicular traffic, and that the streetbeds be deeded over to the Federal government to allow permanent access control. The City has lost revenues from 21 parking meters surrounding the Peter Rodino Federal Building, which had been high turnover spaces, as well as from longer-term parking on adjacent streets. In addition, summons revenue in the area has been eliminated, while Police overtime and patrol costs have skyrocketed, averaging at least $13,000 per month. It is estimated that the total of these expenses has exceeded $1 million for which we are seeking compensation through this Subcommittee.

The street closings have dramatically shifted both the traffic and parking patterns in the Government Center area. This has caused further congestion and delays in an already clogged area, making the necessity for additional off-street parking urgent.

The City had formerly received GSA funding for a parking garage adjacent to the Federal Courts, but those funds were rescinded in the recent budget cuts. Site surveys and preliminary building plans, however, are complete. This garage could be ready to move to construction quickly, if funding was to be restored. Now, more than ever, the safety and security that would be provided by this garage for government agency vehicles, or for public parking for those using Federal facilities, is critical. The site could be acquired and the garage constructed for a total of $9 million.

In a related matter, several years ago, it was recognized that the United States Post Office distribution facility in the Federal complex had become crowded and obsolete. In an effort to save Newark-based jobs and comply with the intent of Executive Order 12072, which directs federal agencies to be located in downtowns, the City of Newark entered into discussions with postal officials about locating a new mail handling facility in the heart of Newark's major redevelopment area. The original concept was for the USPS to acquire over 17 acres for a 300,000 square foot operation, to employ 1,200 workers. However, the current realities of downsizing and budget cutting have impacted on this project too.

Current plans call for a site of only 4.5 acres to house a much smaller and less ambitious project. It will now accommodate the functions of the relocated 07103 branch facility, which is situated within the University Heights redevelopment area. A new Post Office in this neighborhood will service the thousands of new housing units - built by entities as diverse as the Newark Housing Authority, New Community Corporation, and the privately owned K. Hovnanian Companies - which have been or will be constructed in the area. It is estimated that site acquisition, required relocations, site preparation and construction of a modern postal facility will cost $4 million. These funds will be the first Postal Service investment in a Newark neighborhood in decades, and show, in bricks and mortar, the Federal commitment to Newark, its people, and its jobs.

To conclude: I have come before you today to ask for help in coping with the changing situation in Newark. We have felt the ripples of the impact of a terrible tragedy, and ask for your help in dealing with them. And we have built a new neighborhood, with much Federal assistance, and ask for your help in completing a community by providing an essential service to its residents. Your help today can make the difference.

Thank you for your time and attention.

UNIVERSITY OF MIAMI

PREPARED STATEMENT OF CYRUS M. JOLLIVETTE, VICE PRESIDENT FOR GOVERNMENTAL RELATIONS

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present testimony on behalf of the University of Miami. The University of Miami is seeks your support in obtaining the National Institutes of Health (NIH) Perrine Campus which we understand is targetted for surplus through the public benefit discount program.

The NIH utilized the Perrine Campus facility as a site for primarily non-human primate-based medical research. The main research facilty was destroyed in hurricane *Andrew* and subsequently rebuilt by the NIH. The NIH has determined that due to budgetary limitations, it is unlikely that the NIH will be able to continue research activities at the Perrine Campus. When the NIH formally declares the property excess, the General Services Administration will make a decision concerning the campus's disposition.

The 52 acre Perrine Campus has been managed by the University of Miami for the NIH over the past 15 years. The Perrine Campus is adjacent to the University's South Campus, which provides the facility's sole access. The Department of Education, which oversees the deed restrictions on the South Campus is enthusiastic in supporting the transfer of title to the University. The University obtained the South Campus through the public benefit discount program in 1981.

The cost of maintaining the property is considerable, averaging $350,000 annually, plus the additional up-keep required to maintain a USDA-licensed animal facilty for primates and endangered animals. The University is willing and capable of owning and continuing the operation of this research center, resuming important studies in human disease prevention and treatment for the benefit of the public health.

The transfer of ownership to the University would eliminate the considerable maintainance costs for the government while assuring the continued use of the Perrine Campus for research and education under the oversight of the Department of Education.

The transfer of the title of the Perrine Campus would best serve the interests of the NIH, the research community and the public welfare. The University of Miami is uniquely positioned to

assume title to the Perrine Campus, and continue the crucial and highly specialized research for which the Perrine Campus was designed. This transfer best protects the federal investment in the facility and we hope you will support our efforts.

We therefore respectfully seek language in your Subcommittee's FY 97 Appropraition bill directing the transfer of the NIH Perrine Campus to the University of Miami.

Thank you for your consideration.

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